

Essex County Council

Statement of Accounts 2015/16



Essex County Council

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The picture on the front cover is of low tide at Mistley, Essex.

Narrative Report 2015/16



Essex County Council

Narrative Report

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Introduction

About Essex County Council

Essex County Council (ECC) is one of the largest of the **27** county councils in England, covering an area of around **346,000** hectares and with a population of **1.4m** people. It forms the upper tier of local government within Essex.

Our Services

The following core services are provided by the Council:

- **Adult Social Care** (including services for older people, people with physical disability or learning disability and the homeless);
- **Children's and Families** (including the safeguarding of children, looked after children, services to vulnerable children and young people and their families and adoption and fostering services);
- **Education and Lifelong Learning** (including early years and pre-school, mainstream and special schools, special educational needs provision, school improvement, raising the participation age, youth services and careers advice and adult community learning);
- **Economic growth and Waste** (including waste minimisation, disposal and recycling, sustainable development, country parks, flood management, rural affairs and gypsies and travellers);
- **Health** (including public health, mental health services, child health related matters and drug and alcohol action);
- **Infrastructure and Highways Delivery** (including highways, street lighting, traffic management and road safety and passenger transport); and
- **Other services** (including libraries, registration of births, deaths and marriages, coroners, trading standards, emergency planning and housing strategy).

These services are either provided directly by the Council or are commissioned from and delivered by other organisations. Most of these services are mandatory, meaning that the Council must provide them because it is under a statutory duty to do so.

Our leadership and workforce

Our **75** elected Councillors represent the people of Essex and set the overall policy of the Council. The political management structure is centred upon our:

- **Leader**, Cllr David Finch, who has been elected by our local councillors into this role. He is responsible for setting the vision and direction of the Council; and
- **Cabinet Members**, appointed by our Leader, with responsibilities for particular portfolios.

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Together, these members form our Cabinet. Overview and scrutiny committees hold our Cabinet to account for the decisions made on behalf of the Council.

Senior officers, led by our Chief Executive Gavin Jones (who joined the Council in January 2016) and our Executive Directors, are responsible for:

- Advising councillors on policy;
- Implementing councillors' decisions; and
- Service performance.

Together, these officers form our Corporate Management Board.

Our workforce is structured in line with the structure of our Corporate Management Board.

Overall, our workforce comprises **16,339** 'full time equivalent' employees. Of this total, **10,297** are employed within our locally maintained schools. Our non schools' workforce therefore comprises **6,042** 'full time equivalent' employees.

2014/15	Workforce numbers (full time equivalents)	2015/16
2,090	Corporate and Customer Services	1,973
1,397	Family Operations	1,272
787	Adult Operations	856
715	People Commissioning	688
601	Place Operations	554
247	Place Commissioning	231
328	Traded Services	332
139	HR, Strategy and Communications	136
6,304	Sub total - non schools	6,042
10,633	Schools	10,297
16,937	Total	16,339

Our Ambition

Our overarching ambition is to deliver the best quality of life for the people of Essex which we seek to achieve by providing high quality, targeted services that are value for money. We believe that our most important roles are to establish the conditions for innovation and prosperity in our economy, and to lead innovation in the public services.

In order to succeed, we remain focussed on our core purpose to:

- Increase educational achievement and enhance skills;
- Develop and maintain the infrastructure that enables our residents to travel and our businesses to grow;
- Support employment and entrepreneurship across our economy;
- Improve public health and wellbeing across Essex;
- Safeguard vulnerable people of all ages;
- Keep our communities safe and build community resilience; and
- Respect Essex's environment.

These priorities are articulated in our [Vision for Essex 2013-17: Where innovation brings prosperity](#) and guide our work.

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To achieve our vision we work with partners in the public, private, community and voluntary sectors, and with individuals, families and communities. Our focus is on what works best, rather than on who delivers particular services. We also seek to ensure the decisions we take have a meaningful impact on improving lives across Essex. We developed our [Corporate Outcomes Framework](#) to support this way of working.

Our [Corporate Outcomes Framework](#) sets out the seven high level outcomes that we want to achieve to ensure prosperity and wellbeing for our residents, as listed below:

- Children in Essex get the best start in life;
- People in Essex enjoy good health and wellbeing;
- People have aspirations and achieve their ambitions through education, training and lifelong-learning;
- People in Essex live in safe communities and are protected from harm;
- Sustainable economic growth for Essex communities and businesses;
- People in Essex experience a high quality and sustainable environment; and
- People in Essex can live independently and exercise control over their lives.

We believe that securing these outcomes will make Essex a more prosperous county – one where people can flourish, live well and achieve their ambitions.

Our [Vision for Essex 2013-17: Where innovation brings prosperity](#) and [Corporate Outcomes Framework](#) provide a consistent set of aspirations and they were used to inform and guide our budget setting for both 2015/16 and 2016/17.

Our Performance

The seven outcomes outlined in our [Corporate Outcomes Framework](#) explain how we seek to deliver the best result for residents. Outcome indicators are used to gauge performance against these outcomes. The following paragraphs highlight some of our achievements against these outcomes in 2015/16.

Children in Essex get the best start in life

Supporting families during conception and the early years of a child's life through to the end of the foundation stage gives all children in Essex the best possible opportunity to succeed, thrive and have fun at school and be able to make a positive contribution throughout their lives.

'Good level of development' describes children who, at the end of the early years' foundation stage, have achieved either 'expected' or 'exceeding'. The early learning goals are in the areas of learning (personal, social and emotional development; physical development; and communication and language) and the early learning goals in the specific areas of mathematics. The percentage of Essex children achieving a good level of development is **68%**, and is above the England average for the third year in succession.

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69% of Essex schools saw improvement in the number of children achieving a good level of development in 2015/16. **125** schools saw performance improve by more than **10%** and only **17** schools saw a reduction of more than **10%**.

86% of registered childminders and **91%** of pre-schools and nurseries were judged good or outstanding, which is **3%** above the national average.

People in Essex enjoy good health and wellbeing

Our ambition is to promote the best possible health and wellbeing of the residents of Essex. Health is essential if people are to achieve their potential to live a long life and contribute to their community.

A number of health and wellbeing outcomes for Essex residents have improved or remained constant in 2015/16 compared to the previous year including:

- Healthy life expectancy (*a measure of quality of life, or how long one lives in good health, which is different to total life expectancy*) – both male and female healthy life expectancies have improved since 2013. Whilst male healthy life expectancy (**65.4 years**) remains lower than female healthy life expectancy (**66.5 years**), the gap has narrowed over the last four years;
- Life satisfaction rates have increased from **71.5%** in 2014/15 to **78.8%** in 2015/16; and
- The percentage living in good health has remained constant at **70%**.

In addition, a number of outcomes relating to prevalence of healthy lifestyles have improved in 2015/16, including:

- Smoking – down from **18.9%** to **18%**;
- Alcohol-related hospital admissions – down from **1,801** to **886** per 100,000 of population; and
- Child excess weight at age 4/5 years – down from **21.2%** to **20.5%**.

Over **45,000 NHS Health Checks** have been completed with Essex residents in 2015/16. 100% of the eligible population were offered a health check with a conversion rate of **53%**. This performance is above the East of England average (**47.7%**).

The **Stop Smoking Support Service** had treated over **8,000** smokers by February 2016. Of those treated by this point, approximately **4,500** (55%) had successfully quit at four weeks.

People have aspirations and achieve their ambitions through education, training and lifelong learning

Educational attainment is a driver for economic growth. People with higher levels of attainment are more likely to have longer, safer and healthier lives. Essex has seen improvement in the quality of schools and in attainment, with focus on primaries, specific districts and under performing groups.

Since August 2012, the percentage of Essex pupils attending better schools (i.e. those graded as **good** or **outstanding** by Ofsted) has risen by **25%** compared to **14%** nationally. This equates to around **46,000** additional pupils over the period.

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As at February 2016, the highest ever numbers of Essex schools were graded **good** or **outstanding** by Ofsted:

- **85%** primary (86% England);
- **82%** secondary (76% England); and
- **100%** special schools (92% England).

Performance with regard to participation in lifelong learning has reduced from **38%** in 2014/15 to **34%** in 2015/16. Market provision of adult learning has been significantly impacted by funding cuts and the government is currently undertaking major reforms to post-16 provision with the aim of creating fewer, more resilient and efficient providers.

People in Essex live in safe communities and are protected from harm

Reducing crime, the fear of crime, re-offending and the number of children in need / care and improving road safety are all necessary to ensure a better quality of life for Essex communities. We have a key strategic and enabling role, in partnership with relevant organisations and stakeholders, to deliver this outcome to Essex residents and visitors.

Police recorded crime measured **62.6** per 1,000 of population, lower than the national average of **66.9**. However, this is an increase on the previous year (**56.25** per 1,000). This can be attributed to an increase in reporting of crime.

Incidents of reported domestic abuse have increased to **30,719** (compared to **28,009** in 2014/15), highlighting an increased awareness of domestic abuse.

The number of children subject to Child Protection Plans is in line with the figures presented at the start of 2013/14, after continual increases year-on-year. This can be attributed to increases in the size of sibling groups being referred to Initial Child Protection Conference (ICPC). At present there are approximately **20.2%** of child protection cases becoming children in care.

The number of children in care reached **1,007** in 2015/16, compared to **1,027** the previous year. Essex has one of the lowest children in care per 1,000 population ratio in England. There has been a rise in the number of unaccompanied asylum seeking children, with significant month-on-month variations. Unaccompanied asylum seeking children tend to be older and spend less time in local authority care and the overall care figures reflect variations.

Adult safeguarding enquiries have increased in volume, with the percentage of repeat enquires at **29%**; significantly above the target of **19%**.

The number of people killed or seriously injured on Essex roads has decreased from **621** (2014/15) to **618** (2015/16).

Sustainable economic growth for Essex communities and businesses

In conjunction with partners, we have a key role to play in delivering sustainable economic growth for Essex communities and businesses, as well as working with district and borough councils to meet housing demands.

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The '**Greater Essex Devolution Programme**' was established in 2015/16, which included a draft devolution deal for Greater Essex and initial proposals for an integrated transport authority. Variations in commitment have slowed progress considerably and so, in response, a local devolution programme has been established to move powers, where appropriate, from ECC to district/borough councils willing to collaborate.

The Council is working with District and Unitary authorities to ensure **Local Plans** for new homes are sufficiently progressed by 2017. We are investing resources to support the districts that do not have a Local Plan compliant with the National Planning Policy Framework as well as those that have Local Plans prepared under the Planning and Compulsory Purchase Act of 2004 to ensure the 2017 deadline is met.

The Council secured **£15m** of additional funding to deliver **growth projects** by supporting the submission of a second bid to government for funding through the South East Local Enterprise Partnership. The Council has delivered **£28.8m** of projects funded through the first Growth Deal during 2015/16, mostly focused on delivering economic growth through enhanced transport provision. The Colchester Park and Ride project was the first to reach completion.

People in Essex experience a high quality and sustainable environment

A better quality of life for Essex communities will be achieved by conserving, developing and promoting a healthy, safe, diverse, clean and attractive environment. Key focus areas include:

■ **Management of Waste**

Construction of the Tovi Park Mechanical Biological Treatment Plant has been completed and is currently undergoing a formal commissioning process. The plant will be able to process waste to produce a solid fuel product for use in power stations, compost and a higher level of recycling than was previously possible.

Construction was also completed of five waste transfer stations which are intended to reduce the amount of household waste Essex homes send to landfill.

A **5,000** property trial was undertaken in Braintree aimed at improving food waste recycling through a communications and promotional campaign supported by the provision of plastic liners, stickers and leaflets. The trial proved a huge success, increasing food waste recycling by **10%** across the pilot area.

■ **Maintaining the condition of roads and footways**

A substantial road improvement programme was undertaken during the year, the largest of its kind ever undertaken in Essex. This programme of preventative maintenance work is crucial to keeping our road network in optimum condition.

■ **Tackling pollution**

Phase One installation of solar PV panels on ECC buildings has now been completed. The installations will generate circa **219,000** kilo watt hours of electricity per year from the 6,000m² of solar panels across two sites. That is an equivalent of generating **53** days usage for an average house from one day of generation.

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Two years of the annual ECC energy switch campaign brought a benefit to Essex residents of just under **£1m**, with a saving of approximately **£327** per participating household.

- **Minimising the impact of flooding**

2015/16 saw the acceleration of the flood programme, delivering **£1.5m** worth of property level protection, grants and schemes. Over the past year, **83** properties have been protected as part of a wider 6-year scheme in conjunction with the Environment Agency.

People in Essex can live independently and exercise control over their lives

Essex is committed to enabling people to live independently and exercise choice and control over their own lives. A key part of this process is to embed the Increasing Independence / Good Lives approach within all quadrants.

As a consequence of the **Increasing Independence Programme**, **57** people have been helped to move out of residential care and into supported accommodation. Commercial initiatives have led to the addition of **150** supported living units to the market, with a further **44** units in the process of being developed, and another **13** are currently awaiting final approval.

The numbers of people on the housing waiting list for supported accommodation has reduced from **150** in April 2015 to **120** in March 2016, despite the increased demand for supported accommodation as the authority looks to move people into the community.

Residential reablement (launched in 2015/16) has meant people who needed intensive support were able to access residential services for a short period of time to enable them to return home, rather than enter permanent residential care.

The Council continues to build on links with Clinical Commissioning Groups and to work collaboratively with Health. ECC now has a new team in place to provide business intelligence for the West Essex CCG and continues to work closely with each of the other locations on areas of mutual interest, particularly discharge planning and delayed transfers of care.

We are also working with Health partners on a variety of regular and ad-hoc projects including; joint production of a monthly Health and Wellbeing scorecard, regular collaboration through the System Resilience Groups, joint commissioning of services (such as Reablement at Home), data sharing and partnership working on programmes such as ECIP (Emergency Care Improvement Programme).

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Revenue spending

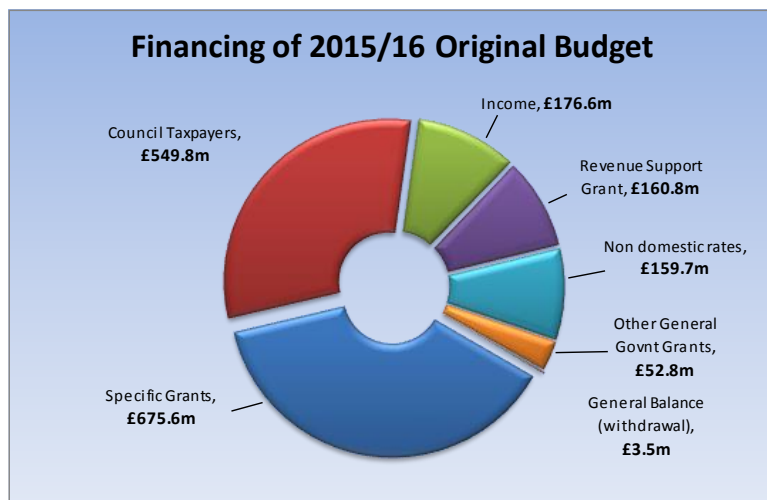
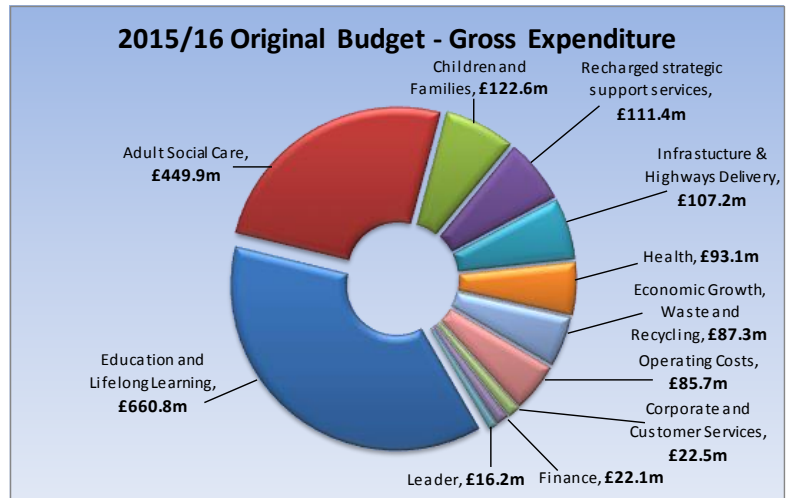
Revenue spending plans for 2015/16

Our budget for the provision of services in 2015/16 was set against a backdrop of considerable financial challenge, due to the Government's on-going austerity programme of national reductions in public sector spending, compounded by inflationary pressures and an increasing demand for our services.

In total, we planned to spend some **£1,778.8m** on delivering services.

This spending plan was aligned to the portfolios of the Council's Cabinet Members, according to their specific responsibilities for discharging the functions of the Cabinet.

We intended to finance **£905.011m** of our spending plan from income, specific and general government grants and by a withdrawal of **£3.462m** from the Council's General Fund Balance.



Budgeted net expenditure therefore originally amounted to **£870.338m**. The net budget was financed from Revenue Support Grant (**£160.774m**), non-domestic rates (*including non domestic rates 'top up' grant*) (**£159.677m**) and local taxpayers (**£549.887m**).

We were able to keep our council tax low in 2015/16 – freezing it at **£1,086.75** (band D equivalent) for the fifth year in succession.

This was whilst delivering **£521m** of savings since 2010/11 (including those delivered in 2015/16).

As we did not increase council tax again this year, we received government funding equivalent to a **1%** increase in council tax.

Cabinet Members monitored actual spending against their approved budgets throughout the year, and Cabinet reviewed the overall position on a quarterly basis. At the end of the third quarter of 2015/16 (January 2016), an under spend of **£5.319m** was forecast (which assumed full commitment of the **£7.5m** remaining in the Emergency Contingency), but there were a number of underlying pressures emerging that were being contained in year by one-off means, but present risks for future years. These pressures related to Adults and Children's social care, and resulted from fluctuations in predicted need and the

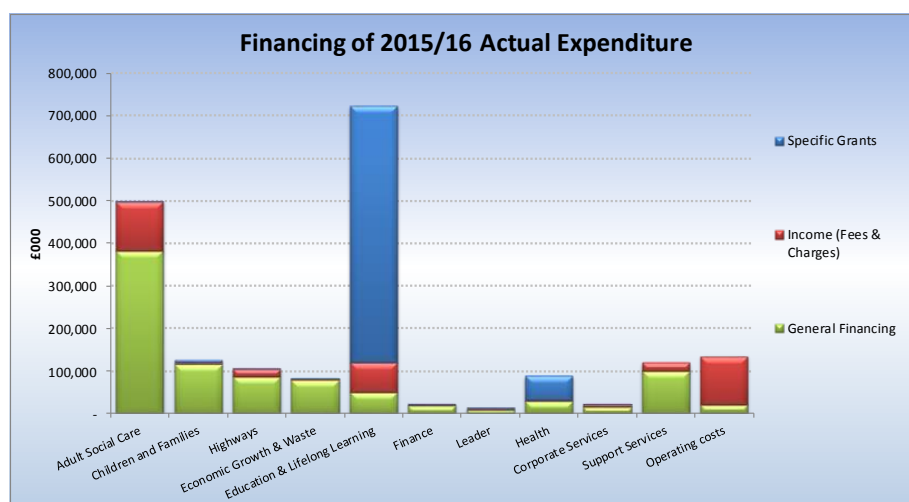
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complexity of that need. This forecast included contingency for unforeseen events in the latter part of the financial year (such as winter pressures and extreme weather events).

Year end position

Actual expenditure in 2015/16, and the financing of that expenditure, is shown in the adjacent graph for Cabinet Members' portfolios.

Although Education and Lifelong Learning was the highest spending area, this was largely funded by specific grants and service specific income. Adult Social Care was by far the largest spending area funded from the Council's general financing resources.



Note:

General Financing comprises general government grants (including Revenue Support Grant), Council Tax and Non Domestic Rates income.

Actual net expenditure compared with the final approved budget for the Cabinet Members' portfolios is shown below, together with the planned and actual financing of that expenditure:

	Budget		Actual net expenditure	(Under) / Over spend against final estimate	
	Original	Final Estimate		£000	%
	£000	£000	£000		
Adult Social Care	379,713	383,659	382,048	(1,611)	0.42%
Children and Families	113,218	115,525	117,394	1,869	1.62%
Education and Lifelong Learning	46,558	48,382	51,439	3,057	6.32%
Deputy Leader and Economic Growth and Waste and Recycling	82,249	81,781	79,600	(2,181)	2.67%
Infrastructure and Highways Delivery	81,677	88,430	86,308	(2,122)	2.40%
Finance	20,507	18,329	19,686	1,357	7.40%
Leader	12,013	10,744	9,694	(1,050)	9.77%
Health	22,920	30,310	29,239	(1,071)	3.53%
Corporate, Communities and Customers	15,991	17,083	15,846	(1,237)	7.24%
Recharged strategic support services	91,117	107,615	99,868	(7,747)	7.20%
Net expenditure by Portfolios	865,963	901,858	891,122	(10,736)	1.19%
Other operating costs					
Emergency Contingency	8,000	7,500	-	(7,500)	100.00%
Interest, capital financing and dividends	41,977	41,088	38,791	(2,297)	5.59%
Appropriations to earmarked reserves and restricted funds	10,662	(45,276)	(17,527)	27,749	61.29%
Total net expenditure	926,602	905,170	912,386	7,216	0.80%
General government grant (excl. RSG)	(52,802)	(60,170)	(60,663)	(493)	0.82%
General Balance - contribution / (withdrawal)	(3,462)	25,336	20,631	(4,705)	18.57%
Net Total	870,338	870,336	872,354	2,018	0.23%
Financed by					
Revenue Support Grant (RSG)	(160,774)	(160,772)	(160,774)	(2)	-
National non-domestic rates (incl. NDR top up grant)	(159,677)	(159,677)	(160,219)	(542)	0.34%
Council taxpayers	(549,887)	(549,887)	(551,361)	(1,474)	0.27%
Total Financing	(870,338)	(870,336)	(872,354)	(2,018)	0.23%

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This table shows that:

- Although some services ended the year in an over spend position, these were mitigated by under spends in other service areas to produce a net under spend by services of **£10.736m**;
- **£7.5m** of the budget set aside as an emergency contingency was not needed to support services' expenditure in 2015/16;
- Interest, capital financing and dividend budgets were collectively under spent by **£2.297m**, largely resulting from not securing further external loans during the year;
- Additional general government grants, council tax and non domestic rates were received, amounting to **£2.511m**;
- Additional appropriations of **£27.749m** were made into various reserves, including:
 - **£9.057m** into the Carry Forwards reserve representing unspent budget that will be used to support service expenditure in 2016/17, some of which was planned and the re-profiling endorsed in advance of the year end;
 - **£8.182m** into the Transformation Reserve in preparation for the next phase of the Council's Transformation Programme;
 - **£12.449m** into the Waste Reserve in respect of the Waste Treatment Plant which is not yet operational; and
 - **£1.939m** being withdrawn from other reserves, including **£1.884m** from the Schools' reserves.
- The contribution to the General Balance was **£4.705m** lower than budgeted. However, at 1 April 2016, the General Balance stands at the level assumed when the 2016/17 budget was set.

2015/16 saw the introduction of the Better Care Fund (BCF), which operates as 'a pooled budget' for health and social care services to work closely, based on a plan agreed between the NHS and local authorities. The BCF amounted to **£100.621m** in 2015/16, providing a common fund to be spent on pooled functions or agreed NHS or health-related council services. The main implications for the Council were that funding of **£34.050m** previously received from various NHS bodies as specific grants was paid into the 'pool' in 2015/16 and that Council expenditure on Domiciliary Reablement, Home Support Services for the over 85s, and Carers Direct Payments is now paid for from the pooled funds.

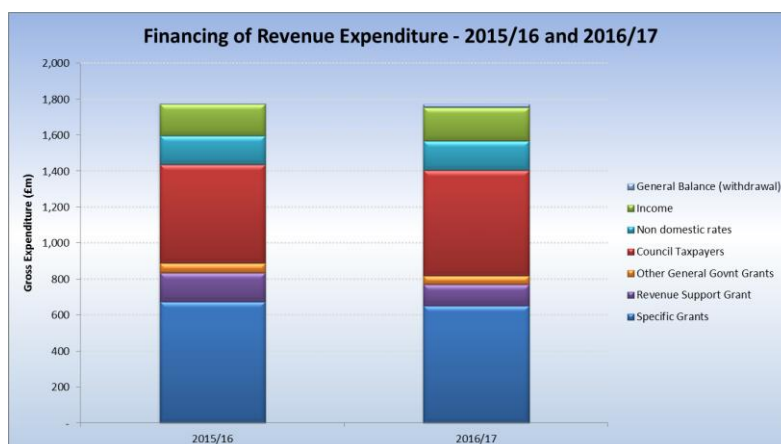
Revenue spending plans for 2016/17

Looking forward to 2016/17 and beyond, the Council will continue to face considerable financial challenge, due to further national reductions in public sector spending, compounded by the introduction of the National Living Wage and an increasing demand for services (particularly social care services).

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At **£1,773.7m**, budgeted expenditure in 2016/17 is only **£5.113m** lower than that originally planned for 2015/16. This is significant when considering that the Council saw substantial reductions in government funding this year:

- A decrease in Revenue Support Grant of **£42.836m** (*represents a 26.7% reduction in this source of funding*); and
- A decrease in other general government grants of **£4.393m** and a reduction of **£23.087m** in specific government grants.



The loss of government funding was partly mitigated by additional council tax and non domestic rates income of **£39.556m**. In part, this was possible due to a reduction in the cost of providing council tax support, a reduction in the value of discounts granted and an increase in the number of households paying council tax, but it also reflects the tough decision made by the Council to increase its share of the council tax by **1.99%**, and to levy a social care precept of **2%**, in 2016/17. The 2016/17 council tax for a band D property is **£1,130.13** (compared with **£1,086.75** in 2015/16).

It was also necessary to withdraw **£19.359m** from the General Fund Balance to support the budget in 2016/17. This use of one-off sources to support the underlying position means there is unprecedented pressure on the revenue budget for the following financial year.

Budgeted net expenditure for 2016/17 amounts to **£867.058m**, and incorporates **£76m** of savings and efficiencies which are to be delivered as part of our transformation programme.

Whilst a balanced budget was set for 2016/17, it includes high levels of risk in terms of delivery of the programme of savings. The challenge does not end in 2016/17, as the Government is cutting the grant to the Council over each of the next four years and there are significant pressures to deal with too (*including inflation, increasing demand and new legislation*). **£273m** of savings need to be found over the medium term which, along with the savings already proposed, equates to total savings of **£374m**. It is therefore essential that the Council continues with its transformation programme to identify further savings opportunities to ensure future balanced budgets are able to be set.

Further details of the Council's revenue investment plans are included in the [Revenue Budget 2016/17](#), which is available on the Council's website.

Capital investment

Background to the 2015/16 Capital Programme

Capital expenditure forms a large part of our spending on the provision of services and, in line with our revenue budget setting process, our Capital Programme for 2015/16 was compiled to maximise and make the best use of the available funding to deliver projects that represented the key priorities of the

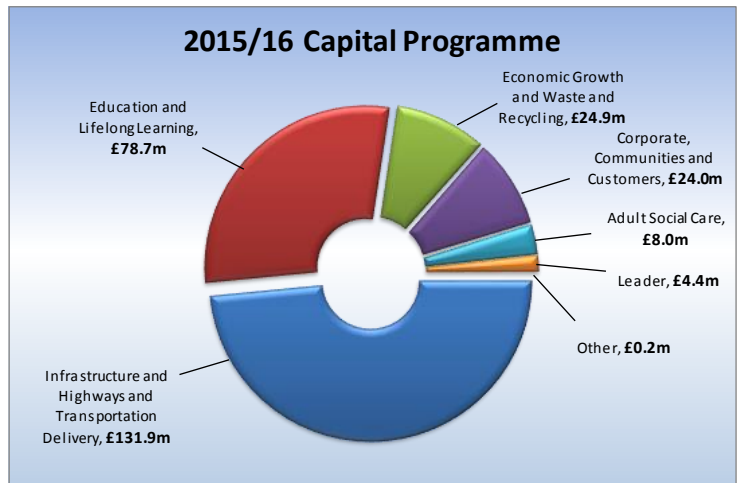
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Council. The Capital Programme is a significant priority for the Council and is fundamental to the Council achieving its aspiration to re-shape how we deliver our services as well as helping to unlock revenue savings and efficiencies to secure our ongoing financial sustainability.

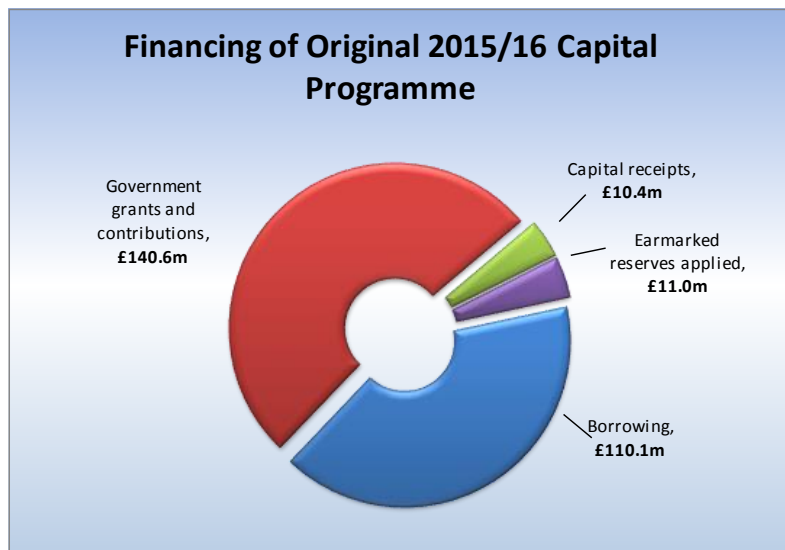
Overall, the Capital Programme for 2015/16 was originally set at **£272.048m**. The Capital Programme was compiled following an assessment of schemes against relevant criteria, including for priorities derived from our [Vision for Essex 2013-17: Where innovation brings prosperity](#) and [Corporate Outcomes Framework](#).

It allowed for:

- The provision of additional school places (primary and secondary) and education facilities (such as special schools);
- Investment in local roads and county routes and associated infrastructure;
- The maintenance and safe operation of our buildings;
- Investment in infrastructure to support the delivery of economic growth; and
- Facilities to support vulnerable and older people to live at home and maintain their independence.



It was intended to finance the Capital Programme from a combination of borrowing (**£110.065m**) and from grants, contributions and reserves (**£161.983m**).



The grants for 2015/16 included funding for major transport schemes allocated through the Local Growth Fund (LGF) deal managed by the South East Local Enterprise Partnership (SELEP) which covers Essex, Southend, Thurrock, Kent, Medway and East Sussex. Strategic Economic Plans were developed based on programmes that stimulate the local economy and create jobs. Following notification of successful bids to government for LGF, the allocation to Essex was subject to competitive priorities across the partnership and determined by SELEP.

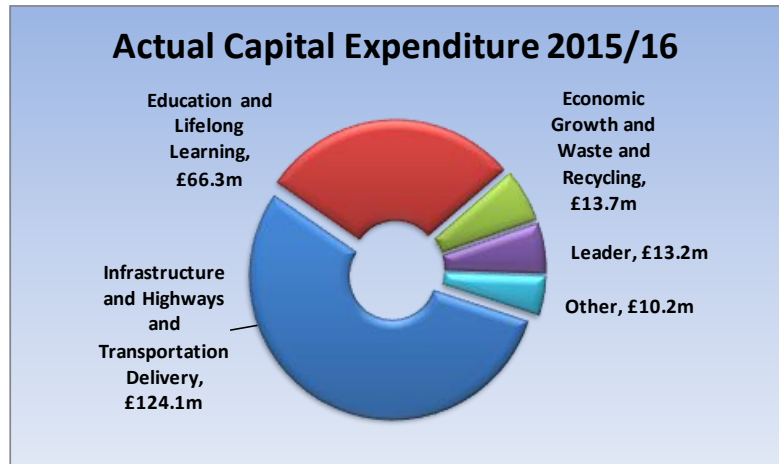
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2015/16 Outturn position

The final approved capital payments budget amounted to **£223.453m**. In comparison, actual expenditure amounted to **£227.531m**, **£4.078m** higher than budgeted due to programme delivery being accelerated.

This accelerated delivery enabled:

- additional design work on a number of school expansion projects;
- the purchase of land to develop into accommodation for vulnerable people; and
- a new cycle path in Wivenhoe from the University to Colchester Town Centre.



During 2015/16 over **600** schemes were undertaken. Our residents benefited from and will continue to benefit from, a wide range of new investment including:

- Creation of over **500** new early years places for children in Essex;
- **24** school expansions and **4** brand new Academies;
- Adaptations to carers properties which secured permanent care for **18** children;
- Provision of **12** new units to enable individuals to enjoy greater independent living;
- **118** BT Cabinets went live during 2015/16 which allowed just under **40,000** Essex properties to connect to Superfast broadband for the first time (the Superfast Essex project has enabled a total of 332 cabinets to go live since the beginning of the project in 2013/14); and
- Rectification of carriageway and structural defects – reducing the number of main route carriageway defects by **23%** and keeping secondary route defects below **500** for two consecutive years. Outstanding local network carriageway surface and structural defects have reduced by **13%**.

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The end of year position is set out in the following table, which compares actual expenditure with the final approved budget for each Cabinet Member's portfolio, and shows how the expenditure has been financed.

	Original approved expenditure	Final approved expenditure	Actual Capital Payments	Variance from approved expenditure over / (under)
	£000	£000	£000	£000
Capital payments				
Adult Social Care	7,676	1,105	2,191	1,086
Children's and Families	541	362	464	102
Corporate, Communities and Customers	5,353	4,791	4,701	(90)
Deputy Leader, Economic Growth and Waste and Recycling	25,342	14,423	13,697	(726)
Education and Lifelong Learning	79,204	64,698	66,251	1,553
Finance	5,504	5,073	2,905	(2,168)
Infrastructure and Highways and Transportation Delivery	131,850	118,480	124,147	5,667
Leader	16,578	14,521	13,175	(1,346)
Total of capital payments financed	272,048	223,453	227,531	4,078
Financed by				
Borrowing	110,065	69,475	58,256	11,219
Government grants and contributions	140,583	129,788	141,829	(12,041)
Capital receipts	10,409	10,409	12,640	(2,231)
Earmarked reserves applied	10,991	13,781	14,806	(1,025)
Total financing	272,048	223,453	227,531	(4,078)

During 2015/16, we disposed of some of our land and buildings – the proceeds from which were used to partly fund our capital investment programme. The most significant asset disposals during 2015/16 were as follows:

Significant disposals	Capital receipts (£000)
▪ Leverton Hall Secure Unit (Brentwood)	5,425
▪ Red House Day Care Resource Centre (Colchester)	903
▪ Clarence House Adult Community Learning Centre and Library (Thaxted)	815
▪ 317 Berecroft Residential Home for Adults with Learning Difficulties (Harlow)	748
▪ Lionmede Family Centre (Chelmsford)	735

At 31st March 2016, we have **£17.208m** of properties held for sale, with sales expected to take place within the next twelve months, and a further **£35.587m** of surplus assets where disposal is anticipated but the timeframe for completion of the sales is less certain.

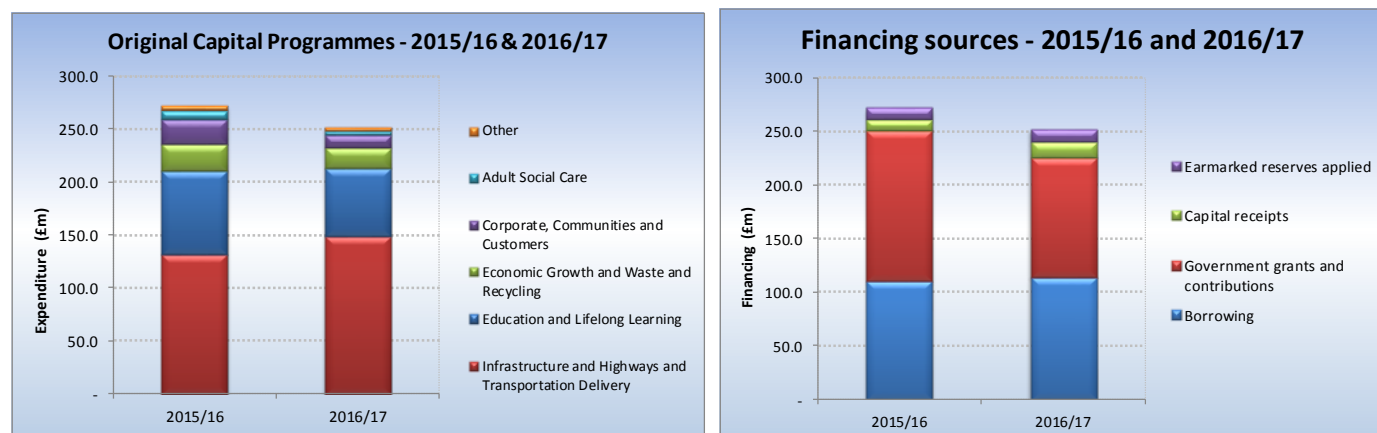
Capital investment plans for 2016/17

Overall, the Capital Programme for 2016/17 has been set at **£251.907m** and will deliver a range of schemes to enhance, maintain and deliver new assets such as superfast broadband, support to colleges in Harlow and Colchester for new training facilities, starting work on building new primary and secondary schools at Beaulieu Park in Chelmsford and New Hall in Harlow, delivering new specialist

Narrative Report

teaching provision in Benfleet and a package of highways maintenance and road congestion busting schemes countywide.

It is intended to finance the Capital Programme from a combination of borrowing (£113.998m) and from grants, contributions and reserves (£137.909m).



Our longer term Capital Programme aspirations are significant too, recognising that this investment is essential if we are to deliver revenue savings and transform our capacity to meet future needs. The programme includes activities that will generate income and growth, drive savings and ensure the quality of infrastructure, for the benefit of Essex residents.

The capital strategy to deliver this vision is:

- Building and maintaining a diverse rolling 3 year Capital Programme which is agile and responds to residents' needs, such as providing new accommodation for vulnerable people and improving the County's flood defences;
- Ensuring activity is prioritised accordingly, with robust delivery plans in place, enabling delivery on time and at value, for example ensuring every child has a place at school and maintaining the road network; and
- Ensuring external funding is leveraged which will maximise the financial envelope available for capital projects, such as funding for road improvements which reduce congestion and unlock housing and jobs growth.

Further details of the Council's capital investment plans are included in the [Capital Programme 2016/17](#), which is available on the Council's web site.

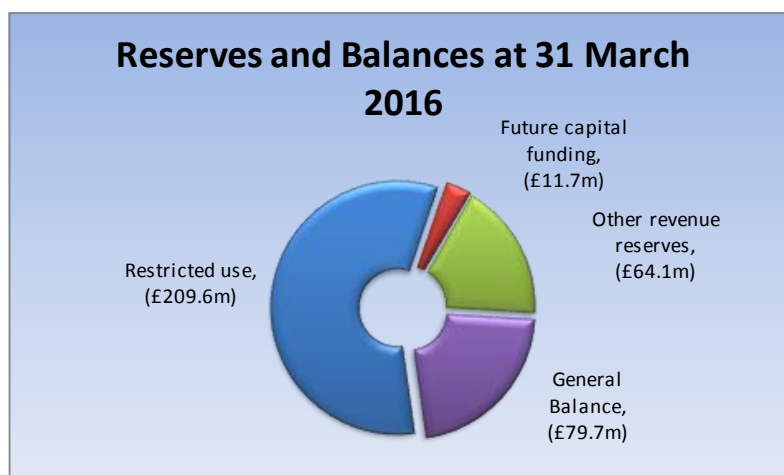
Revenue Reserves and Balances

Much has been written about the reserves and balances held by local councils in the media. However, our revenue reserves are playing an increasingly important part in the Council's financial strategy, by ensuring we have some resilience to cope with unpredictable financial pressures and long term contractual commitments.

Narrative Report

A substantial amount of the Council's reserves are 'restricted use funds' (**£209.585m**). This means they are ring-fenced very specifically to long term contractual commitments such as Private Finance Initiative schemes, or they are funds held on behalf of others (including Schools and Partnerships).

The Council has limited ability to influence how these reserves are utilised.



A further **£75.857m** of our reserves have been earmarked to enable the Council to change the way it provides services and achieves future savings.

The remainder (**£79.731m**) is not ring-fenced and provides a working balance to protect the Council against unexpected cost pressures. This is particularly critical during volatile economic times. A recent example was when the Council needed to draw on the General Balance to mitigate the effect of an unexpected and severe cut to the Council's Revenue Support Grant settlement for 2016/17. With further major funding reductions every year to 2020/21, coupled with economic uncertainty and local government funding reform, the General Balance will remain under close review. The balance is around **6%** of expenditure.

The continued provision of adequate reserves is essential. Without these, it may be necessary to take remedial urgent action in-year to mitigate challenges that arise, which could lead to longer term consequences.

Further details on the reserves held by the Council are provided within the Statement of Accounts (see page 62).

Cash Flow management

The Council primarily undertakes external borrowing in order to manage the cash flow implications of incurring capital expenditure that it does not immediately fund from cash resources, and to manage fluctuations in its cash flows more generally too. Separately, the Council has cash backed resources which it has set aside for longer term purposes (such as funds set aside in reserves and balances), and working capital balances that can either be invested or temporarily utilised to defer the need for external borrowing.

We undertook some short term borrowing during 2015/16, in accordance with our agreement to temporarily borrow the surplus cash balances of Essex Cares Ltd, but it did not prove necessary to undertake any long term borrowing during the year, despite an increase in our Capital Financing Requirement (CFR) (*see page 75 for further details*). Instead, we were able to use the cash we were holding for other purposes to temporarily defer the need for external borrowing.

Narrative Report

We have secured external loans totalling **£110m** during the early part of 2016/17 though, as a consequence of the significant level of capital investment we have planned. This new borrowing was undertaken in compliance with the parameters and limits we have set for 2016/17.

Any cash balances we held during 2015/16 were invested until they were required to meet our outgoings. This primarily meant that funds were invested on a short term basis (up to a maximum period of 364 days), but some funds were invested for periods beyond 364 days.

Funds were invested with other local authorities, money market funds and bodies with high credit ratings. We also lent funds to Essex Cares Ltd and Library Services (Slough) Ltd, as part of our agreement to provide treasury management support to these entities (*both of which are wholly owned subsidiaries of the Council*).

Statement of Accounts

The Council is required by statute to prepare a Statement of Accounts in accordance with proper practices in relation to accounts, defined to include the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (i.e. the CIPFA Code). The Statement of Accounts for 2015/16 is presented within this publication, commencing on page 22.

The key aim of the Statement of Accounts is to provide a 'true and fair' view of the Council's financial position at 31st March 2016 and of its income and expenditure for the 2015/16 financial year. The Statement of Accounts is therefore an essential feature of public accountability, reporting on the Council's use of funds raised from the public and provided by central government and confirming the availability of balances and reserves for future use.

The presentation of the Statement of Accounts is largely defined by the CIPFA Code and other proper practices. Whilst this results in a common pattern of presentation across local authorities, it does mean that the presentation within the Statement of Accounts differs from the basis on which the Council takes financial decisions and monitors its financial performance.

The Statement of Accounts is centred upon the Financial Statements (pages 28 to 32) – all other information included within the Statement of Accounts is intended to aid interpretation of the financial statements and/or to provide further information on the financial performance of the Council during 2015/16.

The Financial Statements comprise:

- **Movement in Reserves Statement** – presents the financial resources available to the Council to support future service delivery and cope with unexpected events;
- **Comprehensive Income and Expenditure Statement** – presents information on resources generated and consumed during the year, based on generally accepted accounting practice;
- **Balance Sheet** – summarises the financial position of the Council at 31st March 2016 including the net assets it has available after settling its liabilities, and its reserves; and
- **Cash Flow Statement** – shows the changes in cash and cash equivalents during 2015/16.

Narrative Report

These Statements are presented both for the Council and for the Group.

Accounting policies (see pages 35 to 51) explain how the financial effects of transactions and other events are reflected in the financial statements and other notes to the accounts (see pages 51 to 127) provide further information on the Council's financial performance.

With effect from the 2016/17 financial year, the Council will adopt the measurement requirements of the CIPFA Highways Network Asset Code (i.e. which requires the measurement of the Highways Network Asset on a Depreciated Replacement Cost (DRC) basis). It is estimated that adoption of the measurement requirements of the CIPFA Highways Network Asset Code will fundamentally alter the composition of the Council's Balance Sheet, increasing the net book value of the Highways Network Asset as at 1 April 2016 from around **£900m**, to an estimated **£20.7bn** on the new measurement basis.

Annual Governance Statement

Our Annual Governance Statement (which commences on page 192 of this publication) summarises the outcome of our review of the Governance Framework that has been in place during 2015/16. The statement demonstrates that we have in place effective arrangements for the governance of our organisation and that we are satisfied that we have a robust system of internal control, which is a critical component of our overall governance arrangements.

Conclusion

Through careful planning and management, Essex County Council has been able to close its 2015/16 accounts showing a robust position, which will support the Council in meeting the financial challenges of 2016/17 and beyond. Whilst a balanced budget has been set for 2016/17, the projections for future years indicate a gap between the Council's expected funding streams and the Council's expenditure. It is therefore essential that the Council continues with its transformation programme to identify further savings opportunities to ensure future balanced budgets are able to be set.



Margaret Lee

Executive Director for Corporate and Customer Services

21st September 2016

Statement of Accounts 2015/16



Essex County Council

Statement of Accounts

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Statement of Accounts - Introduction

Financial Statements

The Council's 'single entity' financial statements for 2015/16 are set out on pages 28 to 32, and comprise:

- **Movement in Reserves Statement** – shows the movement in the year on the different reserves held by the Council, analysed into usable and unusable reserves;
- **Comprehensive Income and Expenditure Statement** – shows the accounting cost of providing services in the year;
- **Balance Sheet** – shows the value of assets and liabilities recognised by the Council; and
- **Cash Flow Statement** – shows the cash and cash equivalents during the year.

The single entity financial statements include the income, expenditure, assets, liabilities, reserves and cash flows of the local authority maintained schools in England and Wales within the control of the Council.

Supplementary information is set out within the notes to the accounts (see pages 33 to 127) to provide further information on the financial performance of the Council during 2015/16.

Group Accounts

Group accounts are presented, in addition to the Council's single entity statements, in order to provide a full picture of the Council's economic activities and financial position. The Group Accounts comprise:

- Group Movement in Reserves Statement;
- Group Comprehensive Income and Expenditure Statement;
- Group Balance Sheet; and
- Group Cash Flow Statement.

These statements, together with explanatory notes and accounting policies, are set out on page 128 to 139.

Pension Fund

The Essex Pension Fund provides pensions and other benefits to employees of the Council, city, district, borough and unitary councils and other scheduled and admitted bodies. An annual report and accounts are published for the Fund. However, the accounting statements of the Fund are also included within this Statement of Accounts. They comprise:

- **Fund Account**

This statement summarises the financial transactions of the Pension Fund for the year.

Statement of Accounts - Introduction

▪ Net Assets Statement

This statement summarises the net assets relating to the provision of pensions and other benefits payable to former employees of the Council and other admitted bodies.

The Pension Fund accounts are set out on pages 140 to 186.

Accounting policies

Accounting policies are the principles, bases, conventions, rules and practices applied by the Council that specify how the financial effects of transactions and other events are reflected in the financial statements through recognising, selecting measurement bases for, and presenting assets, liabilities, gains, losses and changes in reserves. All of the accounting policies adopted, that are material in the context of the Council's 2015/16 financial statements, are described in the Statement of Accounting Policies. The Statement of Accounting Policies is set out in Note 1 to the Accounts, which commences on page 35.

Glossary of terms

A glossary of the terminology used throughout the Statement of Accounts is provided on pages 187 to 191.

Statement of Accounts - Statement of Responsibilities

Council's responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for the administration of those affairs. At Essex County Council, that officer is the Executive Director for Corporate and Customer Services.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts. The Council has delegated this responsibility to the Audit Committee.

Executive Director for Corporate and Customer Services' responsibilities

The Executive Director for Corporate and Customer Services is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out within the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the 'Code of Practice'). In preparing this Statement of Accounts, the Executive Director for Corporate and Customer Services has:

- Selected suitable accounting policies and applied them consistently.
- Made judgements and estimates which were reasonable and prudent.
- Complied with the Code of Practice.

The Executive Director for Corporate and Customer Services has also:

- Kept proper, up to date, accounting records.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Executive Director for Corporate and Customer Services' certificate

I certify that this Statement of Accounts has been prepared in accordance with proper practices, and presents a true and fair view of the financial position of the Council at 31 March 2016 and its expenditure and income for the year then ended.



Margaret Lee

Executive Director for Corporate and Customer Services

21st September 2016

Statement of Accounts - Statement of Responsibilities

Chairman of the Audit Committee's certificate

I confirm that this Statement of Accounts was considered and approved by the Audit Committee at its meeting on **21 September 2016**.

A handwritten signature in dark ink, appearing to read 'Terry Cutmore', with a long, sweeping horizontal line extending from the end of the signature across the page.

Cllr Terry Cutmore
Chairman of the Audit Committee
21st September 2016

Statement of Accounts - Financial Statements

Introduction

The financial statements comprise:

- **Movement in Reserves Statement**

This Statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable' reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable' reserves.

The 'Surplus / Deficit on the provision of services' line, which is taken from the Comprehensive Income and Expenditure Statement, is different from the statutory amounts required to be charged to the General Fund Balance. The 'Net (increase) / decrease before transfers to earmarked reserves' line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves are undertaken by the Council.

- **Comprehensive Income and Expenditure Statement**

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Council raises taxation to cover expenditure in accordance with Regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

- **Balance Sheet**

The Balance Sheet shows the value of the assets and liabilities recognised by the Council.

The net assets of the Council are matched by the reserves held by the Council. Reserves are reported in two categories:

- **Usable reserves** - those that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.
- **Unusable reserves** - those that the Council is not able to use to provide services. These include reserves that hold unrealised gains and losses that would only become available to provide services if assets are sold; and reserves that hold adjustments between accounting and funding certain transactions which are permitted under regulations.

- **Cash Flow Statement**

The Cash Flow Statement shows the changes, during the reporting period, in cash and cash equivalents of the Council, net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management. It shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

- **Notes to the financial statements**

These present information about the basis of preparation of the financial statements and the specific accounting policies used. They also disclose information that is not presented within the financial statements but is relevant to an understanding of them.

Movement in Reserves Statement

For the years ended 31 March 2015 and 31 March 2016

	Notes	Usable Reserves					Total Unusable Reserves	Total Council Reserves
		Earmarked General Reserves	General Fund Balance	Usable Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves		
		£000	£000	£000	£000	£000		
Balance at 31 March 2014		(317,808)	(57,363)	(21,276)	(15,569)	(412,016)	(964,636)	(1,376,652)
Movement in Reserves during 2014/15								
Deficit on Provision of Services		-	192,514	-	-	192,514	-	192,514
Other Comprehensive Income & Expenditure		-	-	-	-	-	(11,537)	(11,537)
Total Comprehensive Income and Expenditure		-	192,514	-	-	192,514	(11,537)	180,977
Adjustments between accounting basis & funding under regulations	5	-	(187,892)	21,276	12,841	(153,775)	153,775	-
Net (increase)/decrease before transfers to earmarked reserves		-	4,622	21,276	12,841	38,739	142,238	180,977
Transfers from Earmarked Reserves	6	6,359	(6,359)	-	-	-	-	-
(Increase) / decrease in 2014/15		6,359	(1,737)	21,276	12,841	38,739	142,238	180,977
Balance at 31 March 2015 (Restated)		(311,449)	(59,100)	-	(2,728)	(373,277)	(822,398)	(1,195,675)
Movement in Reserves during 2015/16								
Deficit on Provision of Services		-	78,167	-	-	78,167	-	78,167
Other Comprehensive Income & Expenditure		-	-	-	-	-	(175,973)	(175,973)
Total Comprehensive Income and Expenditure		-	78,167	-	-	78,167	(175,973)	(97,806)
Adjustments between accounting basis & funding under regulations	5	-	(72,791)	-	(63)	(72,854)	72,854	-
Net (increase)/decrease before transfers to earmarked reserves		-	5,376	-	(63)	5,313	(103,119)	(97,806)
Transfers from Earmarked Reserves	6	26,007	(26,007)	-	-	-	-	-
(Increase) / decrease in 2015/16		26,007	(20,631)	-	(63)	5,313	(103,119)	(97,806)
Balance at 31 March 2016		(285,442)	(79,731)	-	(2,791)	(367,964)	(925,517)	(1,293,481)

Note: Comparative figures for 2014/15 have been restated – details are provided in note 4 (see page 55).

Comprehensive Income and Expenditure Statement

For year ended 31st March 2016

2014/15 (Restated)				Note	2015/16			
Gross expenditure	Government grants	Other income	Net Expenditure		Gross expenditure	Government grants	Other income	Net expenditure
£000	£000	£000	£000		£000	£000	£000	£000
544,936	(35,946)	(75,779)	433,211		554,306	(3,137)	(118,201)	432,968
8,966	-	(4,145)	4,821		7,361	-	(4,271)	3,090
(15,058)	(60)	55	(15,063)		(2,098)	(79)	88	(2,089)
29,836	(1,086)	(1,145)	27,605		30,790	(3,883)	(856)	26,051
950,133	(654,568)	(56,350)	239,215		964,177	(615,925)	(75,099)	273,153
37,587	(317)	(3,739)	33,531		32,481	(382)	(5,242)	26,857
87,300	(2,945)	(2,509)	81,846		87,636	(119)	(2,321)	85,196
157,756	(3,641)	(18,308)	135,807		146,875	(2,494)	(19,300)	125,081
1,880	(41)	(667)	1,172		2,400	-	(601)	1,799
15,757	(1,271)	(1,660)	12,826		18,605	(609)	(1,255)	16,741
49,786	(57,670)	(4)	(7,888)		65,231	(57,693)	(236)	7,302
1,868,879	(757,545)	(164,251)	947,083		1,907,764	(684,321)	(227,294)	996,149
205,376	-	-	205,376	7	100,046	-	-	100,046
133,463	-	(72,467)	60,996	8	122,214	-	(61,730)	60,484
-	(441,416)	(579,525)	(1,020,941)	10	-	(485,826)	(592,686)	(1,078,512)
2,207,718	(1,198,961)	(816,243)	192,514		2,130,024	(1,170,147)	(881,710)	78,167
			(146,455)	24.2				(55,059)
-			1,080	24.2				-
			(329)	24.5				(186)
			134,167	24.6				(120,728)
			(11,537)					(175,973)
			180,977					(97,806)

Note: Details of the restatement of comparative figures for 2014/15 are provided in note 4 (see page 55).

Statement of Accounts - Financial Statements

Balance Sheet as at 31 March 2016

1 April 2014	31 March 2015	Note		31 March 2016	
£000	Restated £000			£000	£000
			Property, Plant and Equipment		
			Operational assets		
1,712,330	1,670,266		Land and buildings	1,632,682	
73,211	23,829		Vehicles, plant and equipment	18,370	
772,530	822,963		Infrastructure	900,850	
2,635	2,272		Community assets	2,607	
			Non operational assets		
61,746	92,621		Assets under construction	94,169	
16,056	33,400		Surplus assets held pending disposal	35,587	
2,638,508	2,645,351	13	Total Property, Plant and Equipment	2,684,265	
14,067	14,368	13	Heritage assets	14,363	
6,577	6,674	13	Investment property	6,723	
666	251	13	Intangible assets	8	
7,432	4,772	17	Long term investments	4,960	
17,768	16,807	18	Long term debtors	16,957	
2,685,018	2,688,223		Long term assets		2,727,276
146,317	122,277	17	Short term investments	155,352	
4,431	9,188	13	Assets held for sale	16,835	
-	-	13	Investment properties held for sale	373	
39	34		Inventory	50	
117,008	127,997	18	Short term debtors	130,225	
155,580	137,193	19	Cash and cash equivalents	58,895	
423,375	396,689		Current Assets		361,730
(25,502)	(25,920)	17	Short-term borrowing	(10,632)	
(223,775)	(226,296)	20	Creditors	(221,721)	
(9,869)	(15,193)	22	Provisions (current)	(17,273)	
(24,187)	(15,902)	21	Revenue grant receipts in advance	(12,571)	
(46,930)	(52,285)	21	Capital grant receipts in advance	(53,868)	
(4,872)	(7,105)	15	Finance Lease obligations (short term)	(5,779)	
(335,135)	(342,701)		Current liabilities		(321,844)
(30)	(34)	20	Long term creditors	(54)	
(24,403)	(22,476)	22	Provisions (non-current)	(24,297)	
(335,081)	(338,751)	17	Long term borrowing	(351,620)	
			Other long term liabilities		
(160,033)	(154,459)	15	Finance lease obligations	(149,139)	
(15,558)	(14,792)		Deferred credits	(14,373)	
(861,501)	(1,016,024)	29	Net Pensions Liability	(934,198)	
(1,396,606)	(1,546,536)		Long term liabilities		(1,473,681)
1,376,652	1,195,675		Net Assets		1,293,481
			Usable reserves		
(317,808)	(311,449)	6	Earmarked reserves	(285,442)	
(57,363)	(59,100)		General Fund Balance	(79,731)	
(21,276)	-		Usable capital receipts reserve	-	
(15,569)	(2,728)		Capital grants unapplied	(2,791)	
(412,016)	(373,277)				(367,964)
		24	Unusable reserves		
(392,474)	(492,334)		Revaluation reserve	(514,628)	
(1,439,616)	(1,345,175)		Capital Adjustments Account	(1,343,174)	
3,221	3,181		Financial Instruments Adjustment Account	3,141	
(262)	(591)		Available for Sale Financial Instruments Reserve	(777)	
861,501	1,016,024		Pension reserve	934,198	
(11,987)	(15,671)		Collection Fund Adjustment Account	(14,944)	
14,981	12,168		Accumulating Compensated Absences Adjustment Account	10,667	
(964,636)	(822,398)				(925,517)
(1,376,652)	(1,195,675)		Total Reserves		(1,293,481)

Note: Details of the restatement of comparative figures for 2014/15 are provided in note 4 (see page 55).

These financial statements replace the unaudited financial statements I certified on 27th June 2016.

Margaret Lee - Executive Director for Corporate and Customer Services - 21st September 2016

Margaret Lee

Statement of Accounts - Financial Statements

Cash Flow Statement

For year ended 31 March 2016

2014/15 £000	Notes		2015/16 £000
(34,221)	25	Operating activities	(33,266)
51,125	↓	Investing activities	102,137
1,483		Financing activities	9,427
18,387		Net decrease in cash and cash equivalents	78,298
155,580		Cash and cash equivalents at 1st April	137,193
137,193		Cash and cash equivalents at 31st March	58,895

Statement of Accounts - Notes to the Financial Statements

Introduction

This section contains notes which are intended to aid interpretation of the financial statements (as set out on pages 28 to 32) and provide further information on the financial performance of the Council during 2015/16. The notes set out within this section are as follows:

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Statement of Accounts - Notes to the Financial Statements

1. Accounting policies

1.1 Introduction

The Statement of Accounts summarises the Council's transactions for the 2015/16 financial year, and its financial position as at 31 March 2016. The accounting policies explain the basis for the recognition, measurement and disclosure of transactions and other events within the Statement of Accounts.

The accounting policies adopted, that are material in the context of the Council's 2015/16 Statement of Accounts, are set out within the following paragraphs.

1.2 General principles

The Council's Statement of Accounts is prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and the Service Reporting Code of Practice 2015/16, supported by International Financial Reporting Standards (IFRS) and statutory regulations.

The Statement of Accounts has been prepared using the going concern and accruals bases. The historical cost convention has been applied, modified by the revaluation of certain categories of non-current assets and financial instruments.

1.3 Accruals of income and expenditure

The Council accounts for income and expenditure in the year that the effects of the transactions are experienced, not simply when the cash payments are made or received.

1.4 Provisions and contingent liabilities

1.4.1 Provisions

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are maintained at the best estimate of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

Statement of Accounts - Notes to the Financial Statements

1.4.2 Contingent liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Council's control. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the financial statements, but are disclosed as a note to the accounts, unless the possibility of an outflow of resources is remote.

1.5 Earmarked revenue reserves

The Council sets aside specific amounts as reserves for future contingency or policy purposes. Reserves are established by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement.

When expenditure is incurred that is to be financed from a reserve, it is charged to the appropriate service revenue account in that year, to count against the Surplus / Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. An amount is then released from the relevant Reserve to mitigate the expenditure, so that there is no net charge against the General Fund for the expenditure.

1.6 Government grants and contributions

Government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that the Council will comply with any conditions attached to them and that the grants and contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until the Council has satisfied any conditions attached to the grant or contribution that would require repayment if not met.

Once the conditions are satisfied, the grants or contributions are credited to the Comprehensive Income and Expenditure Statement as follows:

- **Specific revenue grants and contributions** - credited to the relevant service line in the Comprehensive Income and Expenditure Statement.
- **Specific capital grants and contributions** - credited to Taxation and Non-specific Grant income in the Comprehensive Income and Expenditure Statement.
- **Non Ring-Fenced Grants** - credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement when due.

Statement of Accounts - Notes to the Financial Statements

Where specific revenue grants and contributions are credited to the Comprehensive Income and Expenditure Statement, but the associated expenditure has not yet been incurred, the grant is set aside in an Earmarked Revenue Reserve (i.e. in accordance with Accounting Policy 1.5) so that it can be matched with the expenditure in a subsequent year.

Capital grants and contributions are reversed out of the General Fund Balance in the Movement in Reserves Statement and are either transferred to the Capital Adjustment Account if the grant eligible expenditure has been incurred; or to the Capital Grants Unapplied Account. Grants are subsequently released from the Capital Grants Unapplied Account, and into the Capital Adjustment Account, when the grant eligible expenditure is incurred.

1.7 Council Tax and Non-Domestic Rates

Council tax and non-domestic rates income included in the Comprehensive Income and Expenditure Statement is the total of the:

- Council tax precept on the Collection Funds of each billing authority;
- Council's share of estimated non-domestic rates income collectable by each billing authority; and
- The Council's share of the actual surplus / deficit for council tax and non-domestic rates on the Collection Funds of each billing authority at the end of the current year, adjusted for the Council's share of the surplus / deficit on the Funds at the preceding year end that has not been distributed or recovered in the current year.

As this differs from the amounts required by Regulation to be credited to the General Fund, a reconciling adjustment is required in the Movement in Reserves Statement, which is taken to the Collection Fund Adjustment Account.

In addition, the Council's Balance Sheet includes:

- An attributable share of debtors for council tax and non-domestic rate arrears;
- An attributable share of creditors for overpaid council tax and non-domestic rates;
- A debtor for the billing authorities, for cash collected from council tax and non-domestic rate payers but not paid across, or a creditor for the cash paid in advance of receipt from council tax and non domestic rate payers;
- An attributable share of provisions for non-domestic rating appeals; and
- A Collection Fund Adjustment Account, which records the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by Regulation to be credited to the General Fund.

Statement of Accounts - Notes to the Financial Statements

1.8 Employee benefits

1.8.1 Benefits payable during employment

Short-term employee benefits are recognised as an expense in the year in which employees render service to the Council.

Where employees have earned entitlement to holiday and other forms of leave but not taken it before the year end and are carrying it forward into the next financial year, an accrual is raised against services in the Surplus or Deficit on the Provision of Services. This accrual is then reversed out through the Movement in Reserves Statement to the Accumulating Compensated Absences Adjustment Account.

1.8.2 Termination benefits

Termination benefits are charged on an accruals basis to the appropriate service (or to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement where they relate to pensions enhancements) at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

1.8.3 Post-employment (retirement) benefits

Employees of the Council are members of three separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita on behalf of the Department for Education;
- The NHS Pension Scheme, administered by NHS Pensions; and
- The Local Government Pension Scheme (LGPS), administered by the Council.

The Teachers' and NHS Pension schemes provide defined benefits to members. However, the Schemes' arrangements mean that liabilities for these benefits cannot be identified specifically to the Council. The schemes are therefore accounted for as if they were defined contributions schemes – no liability for future payments of benefits is recognised in the Balance Sheet, and the employer's contributions payable to these schemes are charged to the relevant service lines within the Comprehensive Income and Expenditure Statement.

The Local Government Pension Scheme (LGPS) is accounted for as a defined benefits scheme. Hence:

- The liabilities of the LGPS attributable to the Council are included in the Balance Sheet on an actuarial basis, using the projected unit method.

Statement of Accounts - Notes to the Financial Statements

- Liabilities are discounted to their value at current prices, using a discount rate that is based upon the indicative rate of return on a high quality corporate bond of equivalent currency and term to the scheme's liabilities.
- The assets of the LGPS attributable to the Council are included in the Balance Sheet at their fair value.
- Changes in the net pensions liability are analysed into the following components:
 - **Service Costs**, comprising:
 - **Current service cost** – charged to the Comprehensive Income and Expenditure Statement (i.e. to the services for which the employees worked);
 - **Past service cost** - debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs; and
 - **Net interest on the net defined benefit liability** – charged or credited to the 'Financing and Investment Income and Expenditure' line within the Comprehensive Income and Expenditure Statement.
 - **Re-measurements of the net pension liability** (comprising **Return on plan assets** and **Actuarial gains and losses**) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
 - **Contributions paid to the LGPS** – not accounted for as an expense within the Comprehensive Income and Expenditure Statement.
- The amount chargeable to the General Fund for providing pensions for employees is the amount payable for the year to the LGPS, as determined in accordance with the statutory requirements governing the Scheme. Where this amount does not match the net amount charged to the Surplus or Deficit on the Provision of Services, the difference is appropriated, in the Movement in Reserves Statement, to the Pensions Reserve.

1.8.4 Discretionary benefits

The Council has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

1.9 Value added tax

Income and expenditure excludes amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from them.

Statement of Accounts - Notes to the Financial Statements

1.10 Overheads and support services

The costs of overheads and support services are recharged to those who benefit from the supply or service, in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2015/16 (SeRCOP). The full cost of overhead and support services are shared between services on agreed bases of allocation, with the exception of:

- Corporate and democratic core costs, which relate to the Council's status as a multi-functional, democratic organisation.
- Non-distributed costs, which represent the costs of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on unused, but unrealised, assets.

These two cost categories are accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of the Cost of Services.

1.11 Property, plant and equipment

1.11.1 Recognition of property, plant and equipment

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis in the accounts, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council over a period extending beyond one year, and the cost of the item can be measured reliably.

Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

The Council does not capitalise expenditure on furniture and fittings.

1.11.2 Measurement

Items of Property, Plant and Equipment are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended; and
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Borrowing costs incurred whilst items of Property, Plant and Equipment are under construction are not capitalised.

Statement of Accounts - Notes to the Financial Statements

Donated assets are initially measured at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non Specific Grant Income and Expenditure line of the Comprehensive Income and Expenditure Statement. Gains credited to the Comprehensive Income and Expenditure Statement are reversed out to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet, using one of the following measurement bases:

Asset category	Measurement basis
Land and buildings	<ul style="list-style-type: none">Current value <i>Current value is determined as being the amount that would be paid for the asset in its existing use but, if there is no market based evidence of fair value due to the specialist nature of the asset, depreciated replacement cost is used as an estimate of current value.</i>
Vehicles and equipment	<ul style="list-style-type: none">Depreciated historical cost (<i>as a proxy for current value</i>).
Infrastructure	<ul style="list-style-type: none">Depreciated historical cost.
Community assets	<ul style="list-style-type: none">Depreciated historical cost.
Assets under construction	<ul style="list-style-type: none">Depreciated historical cost.
Surplus assets	<ul style="list-style-type: none">Fair value, estimated at highest and best use from a market participant's perspective.

Assets included in the Balance Sheet at current value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end but, as a minimum, at least once every five years.

Assets are also assessed at each year end to determine whether there is any indication that an asset may be impaired. Where indications exist, and any possible differences are estimated to be material, an impairment loss is recognised.

Where increases in valuations are identified, the gain is accounted for by crediting:

- The Revaluation Reserve to recognise the unrealised gain; or
- The Surplus or Deficit on the Provision of Services where it arises from the reversal of a loss previously charged to a service.

Where decreases in value are identified, the loss is accounted for by writing the carrying amount of the asset down against:

- Any accumulated gains for the asset in the Revaluation Reserve (i.e. up to the amount of the accumulated gains); or
- The Surplus or Deficit on the Provision of Services, where there is no or insufficient balance in the Revaluation Reserve for the asset.

Statement of Accounts - Notes to the Financial Statements

The Revaluation Reserve only contains revaluation gains recognised since 1 April 2007. Gains arising prior to that were consolidated into the Capital Adjustment Account.

1.11.3 Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life and assets that are not yet available for use.

Asset category	Depreciation basis
Land	Land is not depreciated.
Buildings	<p>Buildings are depreciated, on a straight line basis, over the useful economic life (UEL) of each asset (as assessed by the Council's Valuer).</p> <p>Each part of the Council's buildings with a cost that is significant in relation to the total cost of the item is depreciated separately over its UEL. This means that the following components are depreciated separately:</p> <ul style="list-style-type: none"> Structure 80 years Roof 25 to 80 years Plant and machinery 30 to 40 years External works 30 years
Community assets	Depreciated over 60 years, on a straight-line basis.
Vehicles and equipment	Depreciated on a straight-line basis, over an expected lifetime ranging between 5 and 20 years.
Roads and other infrastructure	<p>Depreciation is provided on a straight-line basis over the following periods:</p> <ul style="list-style-type: none"> Road signage 30 years Roads and highway lighting 40 years Structures (eg: bridges) 120 years Off-highways drainage 100 years Other infrastructure 15 and 20 years Additions prior to 2008/09 30 – 35 years
Assets under construction	Assets are re-categorised upon completion, from which point depreciation will be charged in accordance with the policies set out above.

Depreciation charges commence in the first full year after assets become operational, with the exception of vehicles, plant and equipment, where depreciation charges commence in the year of acquisition.

Statement of Accounts - Notes to the Financial Statements

Revaluation gains are also depreciated, with the amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

1.11.4 Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction, the asset is re-valued and is classified as an asset 'Held for Sale'.

Once an asset is disposed of, the carrying amount of the asset and any receipts from disposal are written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for disposals are categorised as capital receipts. These receipts are therefore appropriated, via the Movement in Reserves Statement, to the Capital Receipts Reserve. They can then only be applied to pay for new capital investment or to reduce the Council's underlying need to borrow.

The written off value of asset disposals is not a charge against council tax, as the cost of property, plant and equipment is fully provided for under separate arrangements for capital financing. Amounts are appropriated from the General Fund Balance to the Capital Adjustment Account, and are recorded as such in the Movement in Reserves Statement.

1.12 Heritage Assets

The categories of heritage asset held, and the measurement and depreciation bases applied, are as follows:

Asset category	Measurement and depreciation basis
Buildings held for historical interest	<ul style="list-style-type: none">• Held at depreciated historical cost.• Depreciated over 60 years on a straight line basis.
Archives	<ul style="list-style-type: none">• The value of these items is derived from the estimated costs of conservation and repair.• These assets are not subject to depreciation.
Fine Art	<ul style="list-style-type: none">• Where art work has been subject to formal valuation, it is reported in the Balance Sheet at market value. These pieces of art work are not subject to depreciation.

Where there is evidence of impairment, this is recognised and measured in accordance with the Council's general policy on impairment (see note 1.11.2 which commences on page 40).

Statement of Accounts - Notes to the Financial Statements

Where heritage assets are disposed of, the sale proceeds are accounted for in accordance with the Council's general provisions relating to the disposal of non-current assets and in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (see paragraph 1.11.4).

1.13 Investment properties

Investment properties are measured initially at cost and subsequently at fair value (i.e. at a price reflecting their best and highest use). Properties are not depreciated but are revalued annually, reflecting the market conditions at the year end.

Gains and losses on revaluation and disposal are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Revaluation and disposal gains and losses are then reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds) to the Capital Receipts Reserve.

1.14 Charges to revenue for non-current assets

All services are charged with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets held or occupied;
- Revaluation losses on the assets held or occupied (i.e. where there are no accumulated gains in the Revaluation Reserve against which the losses can be applied), and revaluation gains that reverse a revaluation loss previously recognised in the Comprehensive Income and Expenditure Statement; and
- Amortisation of intangible assets held.

The Council is not required to raise council tax to cover these charges. Instead, it is required to make a prudent annual provision to contribute towards the reduction in its overall borrowing requirement. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by a revenue provision in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

1.15 Revenue expenditure funded from capital under statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset is charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year.

Where the Council has determined to meet the cost of this expenditure from existing capital resources, or by borrowing, a transfer is made in the Movement in Reserves Statement to the Capital Adjustment Account to mitigate the impact on the General Fund Balance.

Statement of Accounts - Notes to the Financial Statements

1.16 Private Finance Initiative and similar contracts

Where the Council is deemed to control the services that are provided under Private Finance Initiative (PFI) and similar contracts, and where ownership of the assets used under the contract passes to the Council at the end of the contracts for no additional charge, the Council carries the assets on its own Balance Sheet as part of Property, Plant and Equipment. Where the assets are constructed under a PFI contract, the asset under construction is only recognised in the Council's Balance Sheet when it becomes probable that future economic benefits attributable to the asset will flow to the Council.

Once recognised on the Council's Balance Sheet, assets are accounted for in accordance with Accounting Policy 1.11. A PFI liability is also recognised on the Council's Balance Sheet for the amounts due to the scheme operator for the capital investment.

The amounts payable to PFI operators each year are analysed into the following elements:

Element of charge	Explanation	Accounting treatment
Services received	Services that the operator must provide with the property, plant and equipment.	Charged to relevant service in the Comprehensive Income and Expenditure Statement
Deferred income	Benefits that the Council is deemed to receive through its control of the services to be provided through the use of the property, plant and equipment.	Credited to the relevant service in the Comprehensive Income and Expenditure Statement.
Finance cost	Interest charge on outstanding Balance Sheet liability.	Debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
Contingent rent	Increases in the amount to be paid for the property arising during the contract.	Debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
Payment towards liability	Obligation to pay the operator the value of the current value of property, plant and equipment.	Applied to write down the Balance Sheet liability towards the PFI operator.
Lifecycle replacement	Comprise the replacement of components of an asset as they wear out.	Posted to the Balance Sheet as a pre-payment and then recognised as an addition to Property, Plant and Equipment when the relevant works are eventually carried out.

Statement of Accounts - Notes to the Financial Statements

1.17 Schools

All locally maintained schools (*i.e. community, foundation, voluntary aided, voluntary controlled, community special and foundation special schools*) are deemed to be under the Council's control. For this reason, schools' transactions and balances attributable to the governing bodies are consolidated into the Council's financial statements, applying accounting policies for recognition and measurement consistent with those applied by the Council to its own income, expenditure, cash flows, assets and liabilities. Transactions and balances between the Council and schools have been eliminated.

Assets provided to a school without the right to continuing use, such that they can be taken back by the owners at any point, are not recognised in the Council's financial statements. This means that the Council recognises the Property, Plant and Equipment of the following categories of locally maintained schools in its financial statements:

- Community and community special schools; and
- Foundation and Foundation trust schools (other than those owned by religious bodies).

The Property, Plant and Equipment of voluntary aided, voluntary controlled and those foundation schools where the non-current assets are owned by religious bodies are not recognised in the Council's financial statements. In the majority of cases, the Council has ownership of the playing fields for these categories of school, and therefore only recognises these non-current assets in respect of these categories of school within its Financial Statements.

Because academy and free schools are independently managed, none of these schools' income, expenditure, assets, liabilities or reserves is included within the Council's Statement of Accounts.

Further details on Central Government funding received by schools, via the Council, is provided in note 12 on Dedicated Schools Grant, on page 70.

Statement of Accounts - Notes to the Financial Statements

1.18 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

Property, plant and equipment held by the Council under finance leases is recognised on the Balance Sheet at the commencement of the lease at its current value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Premiums paid on entry into a lease are applied to writing down the lease liability. Subsequent payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and
- Financing charges and contingent rents (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Rentals paid by the Council under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments.

Where the Council grants a finance lease over a property, or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal, with the gain/loss attributable to the difference between the carrying amount of the asset and the Council's net investment in the lease being credited/debited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. The net investment in the lease is recognised as a lease asset in the Balance Sheet, net of any premium paid. Lease rentals receivable are apportioned between:

- A credit for the disposal of the interest in the property – applied to write down the lease asset; and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the CIES).

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on

Statement of Accounts - Notes to the Financial Statements

a straight-line basis over the life of the lease, even if this does not match the pattern of payments.

1.19 Interests in companies and other entities

The Council is required to produce Group Accounts alongside its own financial statements where it has material interests in subsidiaries, associates and/or joint ventures. The Council has involvement with a number of companies. However, on the grounds of materiality, the Council has concluded that the requirement to produce Group Accounts applies only in relation to its interest in Essex Cares Ltd. In the Council's single entity accounts, the interest in Essex Cares Ltd is recorded as a financial asset at cost.

1.20 Joint operations

The activities undertaken by the Council in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Council as a joint operator recognises:

- Its assets, including its share of any assets held jointly;
- Its liabilities, including its share of any liabilities incurred jointly;
- Its revenue from the sale of its share of the output arising from the joint operation;
- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly.

1.21 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable on demand without penalty on the same working day, or with notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

The Council's bank overdraft is integral to the way in which the Council manages its cash and cash equivalents during the year and as a result forms part of 'Cash and Cash Equivalents' on the Balance Sheet. The Council nets its bank overdraft balance from other cash and cash equivalent balances held at the year end.

Statement of Accounts - Notes to the Financial Statements

1.22 Financial instruments

1.22.1 Financial liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of the financial instrument. Financial liabilities are initially measured at fair value and are carried at their amortised cost.

Interest is charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, based on the carrying amount of the liabilities, multiplied by the effective rate of interest for the instruments. This means that:

- The amount included in the Balance Sheet is the outstanding principal repayable, plus accrued interest; and
- Interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Financial liabilities are de-recognised when the obligation is discharged, cancelled or expires.

1.22.2 Financial Assets

Financial assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of the financial instrument. They are classified into two types:

- **Loans and receivables**

Loans and receivables are initially measured at fair value, and subsequently at their amortised cost.

Interest receivable is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, based on the carrying amount of the assets, multiplied by the effective rate of interest for the instruments. This means that:

- The amount included in the Balance Sheet is the outstanding principal receivable, plus accrued interest; and
- Interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year according to the loan agreement.

Any gains and losses that arise on the de-recognition of an asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

- **Available for sale assets.**

Available for sale assets are carried at fair value, based on their market price. The input to the measurement technique is quoted price (unadjusted) in active markets for identical assets that the authority can access at the measurement date.

Statement of Accounts - Notes to the Financial Statements

Changes in fair value are balanced by an entry in the Available for Sale Financial Instruments Reserve, and the gain/loss is recognised in Other Comprehensive Income and Expenditure as the Surplus or Deficit on Revaluation of Available for Sale Financial Assets.

Income (e.g. dividends) received is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

1.23 Fair value measurement

The Council measures some of its non-financial assets (i.e. surplus and investment properties) and some of its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants.

The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available. Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised as follows:

- **Level 1** – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date;
- **Level 2** – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- **Level 3** – unobservable inputs for the asset or liability.

1.24 Prior Period Adjustments

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a

Statement of Accounts - Notes to the Financial Statements

change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

2. Critical judgements in applying accounting policies

In applying the accounting policies set out within Note 1, the Council has to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the 2015/16 Statement of Accounts are as follows:

- **Future funding for local government**

Whilst there is a high degree of uncertainty about future levels of government funding, due to the Government's ongoing austerity programme of national reductions in public sector spending, there is no evidence to indicate that the assets of the Council might be impaired due to the need to reduce service provision.

The Council has a good track record of delivering savings to mitigate the impact of reducing levels of government funding, delivering savings of **£521m** since 2010/11, and it continues to explore different ways of working to ensure that essential services can be provided within significantly reducing funding envelopes. The Council is also investing considerable sums through its Capital Programme to deliver a range of schemes that will help to deliver revenue savings. In addition, the Council maintains reserves and balances which play an essential part in its financial strategy by ensuring that it has the resilience to withstand financial pressures and the funding to invest in initiatives that will deliver future savings.

The Council has therefore determined that it is appropriate to account for assets and liabilities on the basis that it is a 'going concern'.

- **Property, Plant and Equipment**

Property, Plant and Equipment assets included in the Balance Sheet at current value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end but, as a minimum, at least once every five years. At each year end, a review is undertaken by the Council's valuer to determine whether the carrying amount of these assets is consistent with their current value.

In limited circumstances, property assets are valued at 'fair value' (a price reflecting their best and highest use). Property assets valued on this basis comprise investment properties, non-current assets held for sale and surplus properties. The criteria for assessing property assets into one of these three categories are subject to a degree of interpretation and judgement.

Statement of Accounts - Notes to the Financial Statements

- **Schools**

Whilst all locally maintained schools (*i.e. community, foundation, voluntary aided, voluntary controlled, community special and foundation special schools*) are deemed to be entities controlled by the Council, only the income, expenditure, assets, liabilities, reserves and cash flows that would be recognised by a 'school as an entity' are consolidated into the Council's financial statements.

Land and buildings provided by religious bodies for use by voluntary controlled, voluntary aided and certain foundation schools without the right to continuing use, such that they can be taken back by the owners at any point, are not recognised in the Council's financial statements, even though these assets may continue to be used by these schools for many years into the future. At 31 March 2016, land and buildings for **60** voluntary controlled (2014/15: 61), **60** voluntary aided (2014/15: 60) and **5** foundation schools (2014/15: 5) were provided by religious bodies without the right to continuing use.

- **Private Finance Initiative (PFI) schemes**

Where ownership of the property, plant and equipment used to provide services under operational PFI arrangements passes to the Council at the end of the contracts for no additional charge, the Council considers that it controls the services that are provided, and the residual values of these assets and their facilities at the end of these agreements. Accordingly, it recognises the Property, Plant and Equipment assets in its own balance sheet.

With regard to the Waste Treatment Plant, the Council cannot yet demonstrate that the economic benefits and service potential of the Plant will flow to it, as the Plant remains subject to testing (*see page 78 for further details*). The Council has therefore determined that the asset and the associated PFI liability should not be recognised within its financial statements for 2015/16.

- **Leases**

The Council has acquired the use of Property, Plant and Equipment by entering into leases, and into arrangements that have the substance of a lease. The Council has examined its leases, and classified them as either operating or finance leases. In some cases, the lease transaction is not always conclusive and the Council uses judgement in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership.

- **Provisions**

The Council has made judgements about the likelihood of pending liabilities and whether a provision should be made or whether there is a contingent liability. This includes appeals against the rateable value of business properties and legal claims that could eventually result in the payment of compensation or other settlement. The judgements are based on the degree of certainty around the results of pending cases, experience in previous years or in other local authorities.

Statement of Accounts - Notes to the Financial Statements

▪ Collaborative arrangements

Whilst the Council is involved in a number of collaborative arrangements, it has concluded, that it is only necessary to consolidate one into its Group Accounts – this being Essex Cares Ltd, which is a wholly owned subsidiary of the Council. Although virtually all of Essex Cares' turnover arises in respect of contracts with the Council, consolidation of their financial results into the Council's Group Accounts is considered appropriate to provide a full picture of the Council's economic activities and financial position.

3. Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Balance Sheet at 31 March 2016 for which there is a risk of material adjustment in the forthcoming financial year are as follows:

▪ Property, plant and equipment

Uncertainties	Effect if actual results differ from assumptions	Comments on uncertainty
Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred for each asset. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful economic life (UEL) of assets is reduced, depreciation will increase and the carrying value of assets will decrease. Had the Council assumed a UEL of one year less in 2015/16 for all assets with a longer UEL (i.e. of 20 years or more), depreciation charges would have been £1.815m higher. Details of the carrying values and depreciation are detailed in Note 13 (<i>which commences on page 71</i>).	The useful economic lives (UELs) of buildings are reassessed at each formal re-valuation (i.e. once every five years, as a minimum). As a result, the potential for the UELs of our buildings to get out of alignment is limited.

Statement of Accounts - Notes to the Financial Statements

▪ Fair value measurements

Uncertainties	Effect if actual results differ from assumptions	Comments on uncertainty
When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques based on observable data.	Significant changes in any of the valuation inputs would result in a significantly lower or higher fair value measurement for the financial assets and liabilities.	The Council employs relevant experts to identify the most appropriate valuation techniques to determine fair value. Information about the techniques used to determine the fair value of the Council's assets and liabilities is disclosed in notes 13.3, 17.2 and 17.4.

▪ Pension's liability

Uncertainties	Effect if actual results differ from assumptions	Comments on uncertainty
<p>Estimation of the net pension liability to pay pensions depends on a number of complex judgements relating to:</p> <ul style="list-style-type: none"> the discount rate used; salary increases; changes in retirement ages; mortality rates; and expected return on assets. <p>A firm of actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</p>	<p>The net pension liability in the accounts amounts to £934.198m at 31st March 2016.</p> <p>The effect on the net pensions' liability as a result of changes in individual assumptions is detailed within note 29.4 which commences on page 112.</p>	<p>Individual changes to the assumptions could change the pension obligations by between £59.788m and £62.879m (<i>i.e. depending on which assumption changes, and assuming that only that assumption changes</i>).</p> <p>The pensions liability decreased by £81.826m in 2015/16 as a consequence of changes in demographic, financial and other assumptions. Adjustments are likely to arise in future years, due to the complex nature of the judgements made to estimate the liability.</p>

▪ Provisions

Uncertainties	Effect if actual results differ from assumptions	Comments on uncertainty
<p>The estimate of the provision made for insurance claims depends on a number of complex actuarial judgements which are used to forecast losses under claims. These include:</p> <ul style="list-style-type: none"> The loss development factors to predict ultimate losses; 	<p>At 31 March 2016, the insurance provision amounted to £20.673m.</p> <p>Further details are provided in Note 22 which commences on page 91.</p>	<p>A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</p> <p>Hence, although a number of subjective or complex judgements are made in order to estimate this provision, the potential for future material adjustments is</p>

Statement of Accounts - Notes to the Financial Statements

Uncertainties	Effect if actual results differ from assumptions	Comments on uncertainty
<ul style="list-style-type: none"> The dates of historical claims data provided; The basis on which historical years have been re-valued for inflation; and That the profile of the body of claims is consistent. <p>In addition, it is not certain that all valid claims have been received by the Council.</p>		considered remote.

▪ Debtors

Uncertainties	Effect if actual results differ from assumptions	Comments on uncertainty
At 31 st March 2016, the Council had a balance of sundry debtors of £71.306m and made an allowance for doubtful debts of £10.137m .	1% deterioration in collection rates would necessitate an additional allowance for doubtful debts of £711,000 .	A review of significant balances suggests that the allowance for doubtful debts is appropriate. However, in the current economic climate, it is not certain that such an allowance will be sufficient.

4. Prior Period Adjustment

4.1 Nature of Prior Period Adjustment

The Council de-recognised the Property, Plant and Equipment assets related to a number of community and foundation schools in 2014/15, following their conversion to academy status. The Property, Plant and Equipment assets were de-recognised in accordance with accounting policy 1.11.4 (see page 43). However, it subsequently became apparent that some of the Property, Plant and Equipment assets de-recognised in 2014/15 had not been transferred to these Academy Schools. The value of Property, Plant and Equipment de-recognised in error amounted to **£15.051m**.

The Council has corrected this error retrospectively by amending the comparative amounts for the prior period. The impacts of this restatement are explained in the following paragraphs.

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4.2 Restatement of the 2014/15 Comprehensive Income and Expenditure Statement

	2014/15 Statement of Accounts £000	Reinstate Schools PPE disposed of in error £000	2014/15 Restated £000
Cost of services	947,083	-	947,083
Other Operating Expenditure	220,427	(15,051)	205,376
Financing and Investment Income and Expenditure	60,996	-	60,996
Taxation and Non-Specific Grant Income	(1,020,941)	-	(1,020,941)
Deficit on Provision of Services	207,565	(15,051)	192,514
Surplus arising on revaluation of non-current assets	(146,455)	-	(146,455)
Impairment losses on non-current assets charged to Revaluation Reserve	1,080	-	1,080
Surplus arising on revaluation of available for sale financial assets	(329)	-	(329)
Re-measurements of the net pension liability	134,167	-	134,167
Other Comprehensive Income and Expenditure	(11,537)	-	(11,537)
Total Comprehensive Income and Expenditure	196,028	(15,051)	180,977

4.3 Restatement of the 2014/15 Movement in Reserves Statement

	2014/15 Statement of Accounts £000	Reinstate Schools PPE disposed of in error £000	2014/15 Restated £000
Balance at 31 March 2014	(1,376,652)	-	(1,376,652)
Movement in Reserves during 2014/15			
Deficit on Provision of Services	207,565	(15,051)	192,514
Other Comprehensive Income and Expenditure	(11,537)	-	(11,537)
Total Comprehensive Income and Expenditure	196,028	(15,051)	180,977
Adjustments between accounting basis and funding under regulations	-	-	-
Net increase / decrease before transfers to earmarked reserves	196,028	(15,051)	180,977
Transfers to Earmarked Reserves	-	-	-
Increase in 2014/15	196,028	(15,051)	180,977
Balance at 31 March 2015	(1,180,624)	(15,051)	(1,195,675)

Statement of Accounts - Notes to the Financial Statements

4.4 Restatement of the Balance Sheet

The changes had no impact on the 1st April 2014 Balance Sheet. The impact of the restatement on the 31st March 2015 Balance Sheet is shown below:

	31 March 2014 Per 2014/15 Statement of Accounts	Reinstate Schools PPE disposed of in error	31 March 2015 Restated
	£000	£000	£000
Property, Plant and Equipment			
Operational assets			
Land and buildings	1,655,215	15,051	1,670,266
Vehicles, plant and equipment	23,829	-	23,829
Infrastructure	822,963	-	822,963
Community assets	2,272	-	2,272
Non operational assets			
Assets under construction	92,621	-	92,621
Surplus assets held pending disposal	33,400	-	33,400
Total Property, Plant and Equipment	2,630,300	15,051	2,645,351
Other long term assets	42,872	-	42,872
Current Assets	396,689	-	396,689
Current liabilities	(342,701)	-	(342,701)
Long term liabilities	(1,546,536)	-	(1,546,536)
Net Assets	1,180,624	15,051	1,195,675
Usable reserves	(373,277)	-	(373,277)
Unusable reserves			
Revaluation reserve	(492,334)	-	(492,334)
Capital Adjustments Account	(1,330,124)	(15,051)	(1,345,175)
Other unusable reserves	1,015,111	-	1,015,111
Total Equity	(1,180,624)	(15,051)	(1,195,675)

5. Adjustments between Accounting Basis and Funding under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

Adjustments between accounting basis and funding under Regulations – 2014/15 (part one)

2014/15	Notes	Usable Reserves				Total Unusable Reserves
		Earmarked General Reserves	General Fund Balance	Usable Capital Receipts Reserve	Capital Grants Unapplied Account	
		£000	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account (CAA)	24.3					
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u>						
Depreciation and impairment of non current assets		-	(96,713)	-	-	96,713
Amortisation of intangible assets		-	(401)	-	-	401
Movement in market value of investment properties		-	1,273	-	-	(1,273)
Capital grants and contributions applied		-	96,150	-	-	(96,150)
Revenue expenditure funded from capital under statute		-	(27,975)	-	-	27,975
Value of assets disposed of during the year		-	(210,978)	-	-	210,978
<u>Insertion of items not debited or credited to the Comprehensive Income and expenditure Statement</u>						
Statutory provision for the financing of capital investment		-	33,159	-	-	(33,159)
Capital expenditure charged against the General Fund		-	22,069	-	-	(22,069)
Adjustments involving the Capital Adjustment Account		-	(183,416)	-	-	183,416
Adjustments involving the Capital Grants Unapplied Account						
Grants applied to financing (transferred to the CAA)		-	-	-	13,023	(13,023)
Grants and contributions unapplied		-	182	-	(182)	-
Adjustments involving the Capital Grants Unapplied A/C		-	182	-	12,841	(13,023)
Adjustments involving the Capital Receipts Reserve						
Sale proceeds (part of gain/loss on disposal)		-	9,161	(9,161)	-	-
Use of reserve to finance new capital expenditure		-	-	30,437	-	(30,437)
Adjustments involving the Capital Receipts Reserve		-	9,161	21,276	-	(30,437)

Adjustments between accounting basis and funding under Regulations – 2014/15 (part two)

2014/15	Notes	Usable Reserves					Total Unusable Reserves
		Earmarked General Reserves	General Fund Balance	Usable Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	
		£000	£000	£000	£000	£000	
Adjustments involving the Financial Instruments Adjustment Account (FIAA)	24.4						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement differ from costs chargeable in accordance with statutory requirements	↓	-	40	-	-	40	(40)
Adjustments involving the FIAA		-	40	-	-	40	(40)
Adjustments involving the Pensions Reserve	24.6						
Reversal of items debited/credited to the CIES		-	(76,728)	-	-	(76,728)	76,728
Employers' pension contributions payable in the year		-	56,372	-	-	56,372	(56,372)
Adjustments involving the Pensions Reserve		-	(20,356)	-	-	(20,356)	20,356
Adjustments involving the Collection Fund Adjustment Account	24.7						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement differs from council tax income calculated in accordance with statutory requirements	↓	-	3,684	-	-	3,684	(3,684)
Adjustments involving the Collection Fund Adj Account		-	3,684	-	-	3,684	(3,684)
Adjustments involving the Accumulated Absences Account	24.8						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement differs from remuneration chargeable in accordance with statutory requirements	↓	-	2,813	-	-	2,813	(2,813)
Adjustments involving the Accumulated Absences Account		-	2,813	-	-	2,813	(2,813)
Total adjustments		-	(187,892)	21,276	12,841	(153,775)	153,775

Adjustments between accounting basis and funding under Regulations – 2015/16 (part one)

2015/16	Notes	Usable Reserves					Total Unusable Reserves
		Earmarked General Reserves	General Fund Balance	Usable Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	
		£000	£000	£000	£000	£000	
Adjustments involving the Capital Adjustment Account (CAA)	24.3						
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u>							
Depreciation and impairment of non current assets		-	(105,186)	-	-	(105,186)	105,186
Amortisation of intangible assets		-	(243)	-	-	(243)	243
Movement in market value of investment properties		-	641	-	-	641	(641)
Capital grants and contributions applied		-	140,174	-	-	140,174	(140,174)
Donated assets		-	16,509	-	-	16,509	(16,509)
Revenue expenditure funded from capital under statute		-	(40,832)	-	-	(40,832)	40,832
Value of assets disposed of during the year		-	(109,082)	-	-	(109,082)	109,082
<u>Insertion of items not debited or credited to the Comprehensive Income and expenditure Statement</u>							
Statutory provision for the financing of capital investment		-	34,152	-	-	34,152	(34,152)
Capital expenditure charged against the General Fund		-	14,806	-	-	14,806	(14,806)
Adjustments involving the Capital Adjustment Account		-	(49,061)	-	-	(49,061)	49,061
Adjustments involving the Capital Grants Unapplied Account							
Grants applied to financing (transferred to the CAA)		-	-	-	1,655	1,655	(1,655)
Grants and contributions unapplied		-	1,718	-	(1,718)	-	-
Adjustments involving the Capital Grants Unapplied A/C		-	1,718	-	(63)	1,655	(1,655)
Adjustments involving the Capital Receipts Reserve							
Sale proceeds (part of gain/loss on disposal)		-	12,640	(12,640)	-	-	-
Use of reserve to finance new capital expenditure		-	-	12,640	-	12,640	(12,640)
Adjustments involving the Capital Receipts Reserve		-	12,640	-	-	12,640	(12,640)

Adjustments between accounting basis and funding under Regulations – 2015/16 (part two)

2015/16	Notes	Usable Reserves					Total Unusable Reserves
		Earmarked General Reserves	General Fund Balance	Usable Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	
		£000	£000	£000	£000	£000	£000
Adjustments involving the Financial Instruments Adjustment Account (FIAA)	24.4						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement differ from costs chargeable in accordance with statutory requirements	↓	-	40	-	-	40	(40)
Adjustments involving the FIAA		-	40	-	-	40	(40)
Adjustments involving the Pensions Reserve	24.6						
Reversal of items debited/credited to the CIES	↓	-	(94,727)	-	-	(94,727)	94,727
Employers' pension contributions payable in the year	↓	-	55,825	-	-	55,825	(55,825)
Adjustments involving the Pensions Reserve		-	(38,902)	-	-	(38,902)	38,902
Adjustments involving the Collection Fund Adjustment Account	24.7						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement differs from council tax income calculated in accordance with statutory requirements	↓	-	(727)	-	-	(727)	727
Adjustments involving the Collection Fund Adj Account		-	(727)	-	-	(727)	727
Adjustments involving the Accumulated Compensated Absences Adjustment Account	24.8						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement differs from remuneration chargeable in accordance with statutory requirements	↓	-	1,501	-	-	1,501	(1,501)
Adjustments involving the Accumulated Absences Account		-	1,501	-	-	1,501	(1,501)
Total adjustments		-	(72,791)	-	(63)	(72,854)	72,854

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6. Earmarked revenue reserves

The Council maintains a number of specific reserves to manage known financial liabilities and possible risks. These reserves are categorised as follows:

- **Restricted use** – reserves for known contractual liabilities and potential risks beyond the control of the Council and balances held on behalf of others (including schools).
- **Future capital funding** – comprise revenue contributions to be used to supplement the resources available to finance future capital expenditure.
- **Other** – reserves for general purposes and used to fund revenue investment, investment in new ways of working and reserves to respond to short term budget pressures.

Details of the restricted use and the most significant of the other reserves are as follows:

Reserves	Purpose and usage	Timescale for usage
RESTRICTED USE		
▪ Grant equalisation reserve	Equalise the timing differences between the recognition of grant income in the Comprehensive Income and Expenditure Statement (in accordance with Accounting Policy 1.6) and incurring the grant eligible expenditure.	There are no time constraints placed upon the usage of this reserve.
▪ PFI equalisation reserves	Equalise the timing differences between expenditure and government grant over the life of the PFI contracts.	To be utilised over the life of the PFI contracts.
▪ Waste reserve	To smooth the effects of future increases in the costs of waste disposal.	It is anticipated that this reserve will be utilised by 2040/41.
▪ Partnerships	To retain unspent contributions from partners and apply them in subsequent years.	Usage of these reserves is determined by the individual partnerships.
▪ Schools	Schools are permitted to retain unspent resources which are held in the Schools Reserves.	The statutory authority to commit these resources rests with school governors.
▪ Trading activities	Surpluses generated by trading activities, to be applied by these activities in subsequent years.	No time constraints have been placed upon the usage of this reserve.
OTHER RESERVES		
▪ Capital receipts pump priming	Used to meet costs associated with bringing properties into readiness for disposal.	There are no time constraints placed upon the usage of this reserve.

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Reserves	Purpose and usage	Timescale for usage
▪ Carbon reduction	Used to finance measures aimed at reducing the Council's carbon footprint.	No time constraints have been placed upon the usage of this reserve.
▪ Carry Forwards	Used to carry under spends in the current financial year forward to support expenditure plans in the forthcoming financial year.	It is anticipated that this reserve will be fully utilised in 2016/17.
▪ Collection Fund investment risk	Established to mitigate the risks of falling collection rates for council tax and non-domestic rates.	The remainder of this reserve should be fully utilised in 2016/17.
▪ Community Initiatives Fund	Established to fund revenue and capital community initiatives.	No time constraints have been placed upon the usage of this reserve.
▪ Consultation	This reserve is to provide one-off flexibility in the light of a number of public consultations in progress or planned.	This reserve was fully utilised in 2015/16.
▪ Flood and waste management	To recognise the possibility of extreme weather events and the need for investment in flood and water alleviation schemes.	This reserve was fully utilised in 2015/16.
▪ Insurance	Provides for future potential and contingent liabilities for insurance claims.	There are no time constraints placed upon the usage of this reserve.
▪ Pension deficit	Established to mitigate the impact of increases in employers' pension contributions.	There are no time constraints placed upon the usage of this reserve.
▪ Redundancy	Used to meet the cost of redundancies arising from transformation of services.	There are no time constraints placed upon the usage of this reserve.
▪ Transformation	Used to meet costs associated with project management and change management aspects of the Council's ambitious programme of transformation.	There are no time constraints placed upon the usage of this reserve.

A summary of the balances on the Earmarked Reserves is set out in the following table.

	Balance 1 April 2014	2014/15 movements		Balance 31 March 2015	2015/16 movements		Balance 31 March 2016
		Contributions	Withdrawals		Contributions	Withdrawals	
	£000	£000	£000	£000	£000	£000	£000
Restricted use							
Grants equalisation	(13,817)	(10,996)	6,226	(18,587)	(3,068)	11,616	(10,039)
PFI equalisation reserves	(66,503)	(1,731)	1,700	(66,534)	(464)	5,067	(61,931)
Waste reserve	(60,984)	(17,335)	20,708	(57,611)	(34,977)	12,968	(79,620)
Partnerships reserve	(2,657)	(281)	926	(2,012)	(221)	738	(1,495)
Schools	(51,690)	(13,414)	11,283	(53,821)	(9,350)	11,233	(51,938)
Trading activities	(5,006)	(649)	504	(5,151)	(580)	1,169	(4,562)
	(200,657)	(44,406)	41,347	(203,716)	(48,660)	42,791	(209,585)
Future capital funding	(25,519)	(17,726)	22,069	(21,176)	(5,378)	14,806	(11,748)
Other							
Capital receipts pump priming	(1,821)	(1,000)	600	(2,221)	(1,000)	550	(2,671)
Carbon reduction	(2,961)	(529)	415	(3,075)	(529)	432	(3,172)
Carry forwards reserve	(15,250)	(12,677)	15,250	(12,677)	(9,057)	12,677	(9,057)
Collection Fund investment risk	(4,265)	(5,800)	293	(9,772)	(1,412)	9,772	(1,412)
Community Initiatives Fund	-	-	-	-	(3,750)	1,238	(2,512)
Consultation	(5,896)	-	222	(5,674)	-	5,674	-
Flood and waste management	-	(3,000)	-	(3,000)	-	3,000	-
Insurance	(9,732)	-	985	(8,747)	-	391	(8,356)
Pension deficit	(5,000)	-	1,012	(3,988)	-	1,574	(2,414)
Redundancy	(9,344)	-	3,294	(6,050)	-	6,050	-
Transformation	(30,994)	(20,725)	22,979	(28,740)	(23,010)	20,051	(31,699)
Other reserves	(6,369)	(966)	4,722	(2,613)	(1,729)	1,526	(2,816)
	(91,632)	(44,697)	49,772	(86,557)	(40,487)	62,935	(64,109)
Total	(317,808)	(106,829)	113,188	(311,449)	(94,525)	120,532	(285,442)

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7. Other operating expenditure

Other operating expenditure comprises of the following:

2014/15 Restated £000		2015/16 £000
3,301	Precepts and levies	3,317
202,075	Losses on disposal of non-current assets	96,729
<u>205,376</u>	Total Other Operating Expenditure	<u>100,046</u>

Note: Details of the restatement of comparative figures for 2014/15 are provided in note 4 (see page 55).

The carrying value of assets disposed of during the year includes the effect of removing locally maintained schools from the Council's Balance Sheet that have obtained academy status during the financial year.

8. Financing and investment income and expenditure

Financing and investment income and expenditure comprises of the following:

2014/15 £000		2015/16 £000
	Net interest on the net defined benefit liability	
102,413	Interest cost	88,326
(65,607)	Interest on assets	(55,382)
<u>36,806</u>		<u>32,944</u>
32,323	Interest payable and similar charges	34,529
(2,854)	Interest receivable and similar income	(2,395)
	Income and expenditure in relation to investment properties and changes in their value	
(1,365)		(729)
(3,914)	Net surplus on trading activities	(3,865)
<u>60,996</u>	Financing and Investment income & expenditure	<u>60,484</u>

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9. Trading operations

The Council has a number of trading activities that are required to operate in a commercial manner and balance their budget by generating income from other parts of the Council and other organisations. They are as follows:

Trading activity	Purpose
▪ EES for Schools	Delivers advisory and inspection, governor, library services and financial management support to schools.
▪ School staffing insurance scheme	A self-insurance scheme for schools, supporting sickness and relocation expenses.
▪ Music Services	Delivers music services to schools.
▪ Smarte East	Procures framework arrangements for construction projects.
▪ Information Services infrastructure	Monitors the decommissioning and refresh of IT equipment within the Council.
▪ Legal Services	Provides legal services to a wide range of public sector organisations.
▪ Library Services	<p>Currently delivers a library service on behalf of Slough Borough Council.</p> <p>The County Council has established a company (Library Services (Slough) Ltd), through which the library service is delivered to Slough Borough Council; all costs incurred by Library Services (Slough) Ltd are reimbursed by the County Council.</p> <p>All direct, service management and support service costs incurred by the County Council in relation to the delivery of a library service to Slough Borough Council are included within the Library Services trading account, together with the income received under contract from the Borough Council.</p>
▪ Place Services	Provides environmental planning support and arboriculture services.

The net surplus or deficit on these trading activities is brought into account when determining the net operating expenditure of the Council.

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The following table provides a summary of the financial results of these trading activities.

	Balance at 1 April £000	Movements				Balance at 31 March £000
		Income £000	Expend- iture £000	Net (Surplus) / deficit £000	Approp- riations £000	
2014/15						
EES for Schools	(2,186)	(10,037)	8,186	(1,851)	1,390	(2,647)
School staffing insurance scheme	(1,091)	(4,642)	4,558	(84)	-	(1,175)
Music Services	(88)	(3,838)	3,734	(104)	83	(109)
Smarte East	(214)	(147)	116	(31)	-	(245)
Information Services infrastructure	(164)	(3,508)	3,464	(44)	-	(208)
Essex Legal Services	(689)	(9,466)	7,852	(1,614)	2,003	(300)
Library Services	(269)	(2,142)	1,889	(253)	245	(277)
Place Services	(305)	(1,803)	1,870	67	48	(190)
	(5,006)	(35,583)	31,669	(3,914)	3,769	(5,151)
2015/16						
EES for Schools	(2,647)	(13,537)	10,663	(2,874)	3,601	(1,920)
School staffing insurance scheme	(1,175)	(4,725)	4,927	202	-	(973)
Music Services	(109)	(4,268)	4,248	(20)	(4)	(133)
Smarte East	(245)	(68)	56	(12)	-	(257)
Information Services infrastructure	(208)	(7,596)	7,404	(192)	-	(400)
Essex Legal Services	(300)	(9,350)	9,101	(249)	488	(61)
Library Services	(277)	(1,915)	1,432	(483)	277	(483)
Place Services	(190)	(1,850)	1,613	(237)	92	(335)
	(5,151)	(43,309)	39,444	(3,865)	4,454	(4,562)

10. Taxation and non-specific grant income

Taxation and non-specific grant income is analysed as follows:

2014/15		2015/16
£000		£000
Taxation		
(539,800)	Council tax	(550,420)
(39,725)	Non domestic rates	(42,266)
(579,525)	Total income from taxation	(592,686)
Non specific grant income		
(360,152)	Non ring-fenced government grants	(339,604)
(81,264)	Capital grants and contributions	(129,713)
-	Donated assets - recognition of new assets	(16,509)
(441,416)	Total non specific grant income	(485,826)
(1,020,941)	Taxation and non specific grant income	(1,078,512)

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11. Grant income

11.1 Amounts credited to Taxation and Non-Specific Grant income

The following amounts have been credited to Taxation and Non-Specific Grant income:

2014/15 £000		2015/16 £000
Non ring-fenced grants		
202,155	Revenue Support Grant	160,774
115,418	Non Domestic Rates (<i>Top up grant and Safety net / levy</i>)	118,167
26,298	Private Finance Initiative Grant	30,349
-	Care Act Grant	8,251
5,911	Council Tax Freeze Grant	5,980
5,271	New Homes Bonus / New Homes Bonus Adjustment Grant	6,422
-	Independent Living Fund grant	4,426
3,712	Business Rates (Section 31 Grants)	4,025
1,387	Other non ring-fenced grants	1,210
<u>360,152</u>		<u>339,604</u>
Capital grants and contributions		
	Department for Education	
18,843	Standards Fund	53,290
9,801	Other	2,909
	Department for Transport grants	
22,451	Direct funding	23,778
13,618	Integrated transport grant	6,275
4,738	Other	2,087
-	South East Local Enterprise Partnership - Local Growth Fund	28,800
11,813	Other grants and contributions	12,574
<u>81,264</u>		<u>129,713</u>
-	Donated assets - recognition of new assets	16,509
<u>441,416</u>	Total non specific grant income	<u>485,826</u>

Prior year comparatives are consistent with the figures presented in the 2014/15 Statement of Accounts, but some grants have been grouped together where the amounts are minor and no similar amounts have been received in 2015/16.

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11.2 Amounts credited to Services

An analysis of the specific revenue and capital grants that have been credited to the Net Cost of Services within the Comprehensive Income and Expenditure Statement is as follows:

2014/15			2015/16		
Capital grants	Specific revenue grants	Total	Capital grants	Specific revenue grants	Total
£000	£000	£000	£000	£000	£000
Department for Education (incl. Education Funding Agency)					
8,226	5,063	13,289	4,080	1,450	5,530
-	559,305	559,305	-	530,639	530,639
-	29,313	29,313	-	27,765	27,765
-	15,045	15,045	-	11,683	11,683
-	8,139	8,139	-	13,228	13,228
-	8,406	8,406	-	8,095	8,095
8,226	625,271	633,497	4,080	592,860	596,940
Department of Health					
-	55,552	55,552	-	55,769	55,769
-	34,533	34,533	-	1,584	1,584
1,409	3,085	4,494	-	3,030	3,030
1,409	93,170	94,579	-	60,383	60,383
Grants awarded by other bodies					
-	9,016	9,016	-	7,652	7,652
-	3,530	3,530	-	5,370	5,370
-	-	-	3,306	-	3,306
-	3,043	3,043	797	1,406	2,203
3,352	10,528	13,880	-	8,467	8,467
3,352	26,117	29,469	4,103	22,895	26,998
12,987	744,558	757,545	8,183	676,138	684,321

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12. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by a grant awarded by the Department for Education, the Dedicated Schools Grant (DSG). An element of the DSG is recouped by the Department to fund academy schools in the Council's area.

DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2015/16 are provided in the following table.

2014/15		2015/16 Total	Deployment in 2015/16	
£000			Central Expenditure	Individual Schools Budget
		£000	£000	£000
(969,244)	Final DSG for the year (before Academy recoupment)	(978,224)		
407,868	Academy figure recouped	448,226		
(561,376)	Total DSG after Academy recoupment	(529,998)		
(5,581)	Brought forward from previous year	(7,108)		
(566,957)	Agreed initial budgeted distribution	(537,106)	(80,334)	(456,772)
-	In year adjustments	-	-	-
(566,957)	Final budgeted distribution	(537,106)	(80,334)	(456,772)
559,849	Actual central expenditure / ISB deployed	530,816	74,044	456,772
-	Council's contribution for year	-	-	-
(7,108)	Carry forward to next year	(6,290)	(6,290)	-

13. Property, plant and equipment, other non-current assets and Assets held for sale

13.1 Movement in balances – 2014/15

	Property, plant and equipment (Restated)						Intangible Assets	Investment Property	Heritage Assets	Assets held for sale	Investment Properties held for sale
	Land and buildings	Vehicles and equipment	Infra-structure Assets	Community Assets	Assets under construction	Surplus Assets					
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Gross Book Value											
As at 1 April 2014	1,736,375	98,740	1,011,419	2,715	61,746	16,106	4,483	6,577	14,089	4,431	-
Additions	4,444	3,474	55	-	165,053		2	-	-		-
Revaluation increases / (decreases) recognised in:											
Revaluation Reserve	113,526	(2,730)	-	(56)	-	(8)	-	-	262	-	-
Surplus/Deficit on the provision of services	(32,645)	(2,195)	-	-	-	(148)	-	1,273	-	-	-
Disposals	(211,534)	(1,708)	-	(248)	-	(380)	(16)	(218)		(2,720)	-
Reclassification of assets to / (from) other categories	39,355	(63,906)	5	(164)	-	18,168	-	(958)	23	7,477	-
Transfers to / (from) assets under construction	40,238	14,108	79,646	119	(134,178)	48	-	-	19	-	-
As at 31 March 2015	1,689,759	45,783	1,091,125	2,366	92,621	33,786	4,469	6,674	14,393	9,188	-
Depreciation / Amortisation											
As at 1 April 2014	(24,045)	(25,529)	(238,889)	(80)	-	(50)	(3,817)	-	(22)	-	-
Revaluations and restatements	32,945	1,400	-	1	-	35	-	-	-	-	-
Depreciation / amortisation on impairments	7,807	2,321	-	4	-	-	-	-	-	-	-
Depreciation / amortisation for the year	(36,368)	(6,057)	(29,273)	(38)	-	(107)	(413)	-	(3)	-	-
Depreciation / amortisation on assets sold	4,773	1,021	-	19	-	21	12	-	-	-	-
Other movements in depreciation / impairment	(4,605)	4,890	-	-	-	(285)	-	-	-	-	-
As at 31 March 2015	(19,493)	(21,954)	(268,162)	(94)	-	(386)	(4,218)	-	(25)	-	-
Net book value at 31 March 2014	1,712,330	73,211	772,530	2,635	61,746	16,056	666	6,577	14,067	4,431	-
Net book value at 31 March 2015	1,670,266	23,829	822,963	2,272	92,621	33,400	251	6,674	14,368	9,188	-

Note:

Details of the restatement of comparative figures for 2014/15 are provided in note 4 (see page 55).

13.2 Movement in balances – 2015/16

	Property, plant and equipment						Intangible Assets	Investment Property	Heritage Assets	Assets held for sale	Investment Properties held for sale
	Land and buildings	Vehicles and equipment	Infra-structure Assets	Community Assets	Assets under construction	Surplus Assets					
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Gross Book Value											
As at 1 April 2015	1,689,759	45,783	1,091,125	2,366	92,621	33,786	4,469	6,674	14,393	9,188	-
Additions	20,768	836	158		183,784		-	-	-	-	-
Revaluation increases / (decreases) recognised in:											
Revaluation Reserve	27,429	-	-	18	-	12,471	-	-	-	-	-
Surplus/Deficit on the provision of services	(40,993)	(46)	-	-	-	935	-	641	-	-	-
Disposals	(100,501)	(1,839)	-	(18)	-	(2,944)	(4)	-	(13)	(6,319)	-
Reclassification of assets to / (from) other categories	(5,729)	45	651	(72)	-	(8,888)	-	(650)	-	14,270	373
Transfers to / (from) assets under construction	73,083	266	108,320	453	(182,236)	345	4	58	11	(304)	-
As at 31 March 2016	1,663,816	45,045	1,200,254	2,747	94,169	35,705	4,469	6,723	14,391	16,835	373
Depreciation / Amortisation											
As at 1 April 2015	(19,493)	(21,954)	(268,162)	(94)	-	(386)	(4,218)	-	(25)	-	-
Revaluations and restatements	14,923	-	-	-	-	218	-	-	-	-	-
Depreciation / amortisation on impairments	4,522	14	-	-	-	21	-	-	-	-	-
Depreciation / amortisation for the year	(31,845)	(6,359)	(31,242)	(46)	-	(140)	(247)	-	(3)	-	-
Depreciation / amortisation on assets sold	755	1,671	-	-	-	126	4	-	-	-	-
Other movements in depreciation / impairment	4	(47)	-	-	-	43	-	-	-	-	-
As at 31 March 2016	(31,134)	(26,675)	(299,404)	(140)	-	(118)	(4,461)	-	(28)	-	-
Net book value at 31 March 2015	1,670,266	23,829	822,963	2,272	92,621	33,400	251	6,674	14,368	9,188	-
Net book value at 31 March 2016	1,632,682	18,370	900,850	2,607	94,169	35,587	8	6,723	14,363	16,835	373

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13.3 Fair value measurement

In accordance with Accounting Policy note 1.23 (page 50), the Council measures its surplus assets and investment properties at fair value. The inputs into the valuation techniques are categorised as follows:

- **Level 1** – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date;
- **Level 2** – inputs other than quoted prices that are observable for the asset, either directly or indirectly;
- **Level 3** – unobservable inputs for the asset.

Information about the fair values of these assets as at 31 March 2016 is as follows:

	31st March 2016		
	Level 1	Level 2	Fair value
	<i>Quoted price in active market for identical assets</i>	<i>Other significant observable inputs</i>	
	£000	£000	£000
Surplus properties			
Former school sites	14,453	6,035	20,488
Land	2,283	8,507	10,790
Other	4,231	196	4,427
	20,967	14,738	35,705
Investment properties			
Agricultural tenancies	190	5,968	6,158
Other	565	-	565
	755	5,968	6,723

The Council has interpreted **Level 1** inputs as meaning that the valuation figures are based on a strong pool of prima facie market evidence considered to be highly or directly comparable (i.e. very similar in terms of property type and/or location to the subject asset).

In the absence of non-prima facie market transactional evidence, fair value has been derived by determining a general tone of values for an asset class and/or geographical location and by considering transactional evidence for the sale of comparable assets (interpreted as being a **Level 2** input).

No fair values have been derived using **Level 3** inputs.

In estimating the fair value of the Council's investment properties, the highest and best use of the properties is their current use. For surplus properties, the highest and best use is assessed by

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considering if there is an alternative use to that applied by the Council when the properties were used for operational purposes that would maximise their value.

There has been no change in the valuation techniques used during the year for investment properties. However, prior to 2015/16, surplus assets were valued on the basis of their current value in existing use ('existing use' meaning use prior to the assets being classified as surplus).

13.4 Capital commitments

At 31st March 2016, the Council has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2016/17. The commitments are summarised as follows:

2015 £000		2016 £000
1,238	Highways and Transportation	-
20,896	Education (schools)	12,795
14,751	Information Services	16,256
6,021	Other	415
<u>42,906</u>		<u>29,466</u>

13.5 Revaluations

The Council ensures that all property, plant and equipment required to be measured at current value is re-valued, under a rolling five year programme, by the Council's property advisor Lambert Smith Hampton. All valuations are undertaken in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors (RICS). The timing and amounts of the valuations are summarised in the following table:

	Held at historical value £000	31 March 2012 £000	31 March 2013 £000	31 March 2014 £000	31 March 2015 £000	31 March 2016 £000	Total cost or valuation £000
Operational Assets							
Land and buildings	-	187,961	260,977	215,221	469,615	530,042	1,663,816
Vehicles, plant & equipment	45,045	-	-	-	-	-	45,045
Infrastructure	1,200,254	-	-	-	-	-	1,200,254
Community Assets	2,747	-	-	-	-	-	2,747
Non-Operational Assets							
Surplus Assets	-	129	1,561	176	227	33,612	35,705
Assets under construction	94,169	-	-	-	-	-	94,169
Gross book value	<u>1,342,215</u>	<u>188,090</u>	<u>262,538</u>	<u>215,397</u>	<u>469,842</u>	<u>563,654</u>	<u>3,041,736</u>

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As detailed in note 13.3, the Council previously measured its surplus properties at their current value in existing use but, with effect from 2015/16, now measures them at fair value. On materiality grounds, only those surplus assets with a fair value estimated to exceed **£100,000** were formally revalued during 2015/16, with the remainder being assessed by the Council's Valuer via a 'desk top' exercise; the properties not formally valued in 2015/16 will be formally revalued as the valuations falls due under the rolling five year programme.

14. Capital expenditure and capital financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance lease and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase to the Capital Financing Requirement, a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The Capital Financing Requirement is analysed in the second part of this note.

2014/15 £000		2015/16 £000 £000	
834,795	Opening Capital Financing Requirement		840,959
	Capital investment		
173,025	Property, plant and equipment	189,036	
2	Intangible assets	-	
27,975	Revenue expenditure funded from capital under statute	40,832	
-	Loans awarded for capital purposes	910	
<u>201,002</u>	Total capital investment	<u>230,778</u>	
	Sources of finance		
(30,437)	Capital receipts	(12,640)	
(109,173)	Government grants & contributions	(141,829)	
(22,069)	Earmarked revenue reserves applied	(14,806)	
(33,159)	Revenue provision for the repayment of debt	(34,152)	
<u>(194,838)</u>	Total sources of finance	<u>(203,427)</u>	
6,164	Increase in the Capital Financing Requirement		27,351
<u>840,959</u>	Closing Capital Financing Requirement		<u>868,310</u>
	Explanation of movements in year		
3,820	Increase in underlying need to borrow		26,875
2,344	Increase / (decrease) for assets acquired under finance lease		476
<u>6,164</u>	Increase in the Capital Financing Requirement		<u>27,351</u>

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15. Leases

15.1 Council as Lessee – Finance leases

The following table summarises the Council's finance lease obligations:

31st March 2015			31st March 2016		
Short Term	Long Term		Short Term	Long Term	
£000	£000		£000	£000	
8	829	Property	8	821	
1,248	4,967	Vehicles, plant and equipment	1,181	4,245	
5,849	148,663	Private Finance Initiatives	4,590	144,073	
7,105	154,459		5,779	149,139	

Further detail on the liabilities related to Private Finance Initiative schemes is provided in Note 16, which commences on page 77.

15.2 Council as Lessee – Operating leases

The Council has acquired the use of property, plant and equipment by entering into operating leases. The future minimum lease payments due as at the year-end under non-cancellable leases in future years are:

31 March 2015			31 March 2016		
Property £000	Other £000	Total £000	Property £000	Other £000	Total £000
4,790	3,256	8,046	3,387	3,075	6,462
14,329	3,308	17,637	10,349	2,529	12,878
52,881	51	52,932	56,619	231	56,850
72,000	6,615	78,615	70,355	5,835	76,190
Total lease rentals					

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16. Private Finance Initiative and similar contracts

16.1 Nature and significant terms of PFI arrangements

The Council has entered into a number of Private Finance Initiative (PFI) and Public Private Partnership (PPP) schemes. The nature and significant terms of these arrangements are as follows:

Scheme	Nature and significant terms
A130 Bypass	<p>This contract was entered into in October 1999 for the design, construction and maintenance of the A130 Bypass and associated off-site facilities.</p> <p>Construction was completed in two phases; the Northern section was completed in 2002 and the Southern section in 2003. No payments were made until construction of the road was complete. Construction costs were estimated at £80m (including construction and land costs, but excluding maintenance costs).</p> <p>Payments are made to the Contractor for the provision of the road surface, and are based upon the availability and usage of the road. Deductions can be made if the road is closed or if traffic flow is affected by road works.</p> <p>The road will be passed to Council in a repaired/neutral state at the end of the arrangements in 2030.</p>
Debden Park School	<p>Under this arrangement, the Operator was firstly responsible for construction of the school and subsequently for the running of the School. Initial construction costs were in the region of £15m.</p> <p>The operator is operating and maintaining the school facilities for a contract term of 25 years (i.e. until 2026).</p> <p>The amounts paid to the Operator vary according to inflation, the proportion of time that the facilities are made available to the Council and according to the achievement of performance goals.</p>
Clacton Secondary Schools	<p>This PFI contract was entered into in 2003/04 for the construction of a new secondary school and the expansion and refurbishment of a further two secondary schools, all within the Clacton area. Total construction costs were in the region of £34m.</p> <p>The contract also provides for a full facilities management service for all sites for the contract term of 30 years (i.e. from 2005 until 2035).</p> <p>In return for these services, the Operator is paid an annual unitary charge, which varies according to inflation, the proportion of the time that the facilities are made available to the Council, and the extent to which the Operator meets agreed performance goals.</p>

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Scheme	Nature and significant terms
Tendring Primary Schools	<p>This contract was entered into in October 2001 for the provision and refurbishment of 12 primary schools within the Tendring area. Total construction costs were in the region of £15m.</p> <p>The Operator is operating and maintaining the schools' facilities for the contract term of 32 years (i.e. until 2033).</p> <p>The unitary charges paid to the Operator each year vary according to inflation, the proportion of the required time that the facilities are available to the Council and the extent to which performance goals are met.</p>
Castleview, Cornelius Vermuyden and Columbus schools	<p>This contract was entered into in April 2010 for the provision of three schools under one project agreement, with one unitary payment. The contract includes buildings and grounds maintenance, security, caretaking and cleaning. The operational term for the PFI contract, which commenced in January 2012, is 25 years.</p> <p>At financial close of this contract, two of the schools were foundation schools and one was a community school. All three of the schools have subsequently converted to academy status.</p> <p>These schools' governing bodies consent to the Council acting on their behalf and they accept the arrangements included within the PFI project agreement. Payment arrangements between the Council and these schools reflect those agreed in the project agreement.</p> <p>The Council carries the PFI liabilities on its own Balance Sheet for one of these schools (the Columbus School), as this school was a community school at financial close of the contract. The construction costs of this school amounted to £22.3m.</p>
Woodlands School	<p>The contract includes buildings and grounds maintenance, security, caretaking and cleaning. The operational term for the PFI contract is 23 years (excluding the construction period). Upon expiry of the contract, it is intended that any property interest will revert back to the Council for nil consideration.</p> <p>Construction costs for this school amounted to £27m. The school became operational in January 2014. It converted to academy status on 1 April 2015.</p> <p>Unitary payments, which include payment for services provided, financing charges and repayment of this liability, will be in the region of £4m per annum.</p>
Waste Treatment Plant - Basildon	<p>This contract was entered into on 31 May 2012 with Urbaser Balfour Beatty and provides for the design, construction, finance and operation of a waste treatment plant in Basildon.</p> <p>Work on the physical construction commenced in March 2013; the Facility required capital expenditure in the region of £107m (borne by the private sector) and achieved the Readiness Date in November 2014.</p>

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Scheme	Nature and significant terms
	<p>The Facility is operating, accepting waste and achieving diversion from landfill and while we are in this commissioning period the Facility will be tested with varying levels of waste to ensure functionality can be maintained on a sustained basis prior to becoming fully operational. Like other similar projects, the complex technical nature of a facility like this means there is a lengthy period when issues can be addressed and in this instance the contract long stop date to resolve these matters to the satisfaction of both parties is 12 January 2017.</p> <p>The Facility, and associated PFI liability, will not be recognised in the Council's Balance Sheet until the Acceptance Test Certificate is issued for the Facility or a likely future obligation exists.</p> <p>Upon expiry of the 25 year PFI contract, it is intended that any property interest will revert back to the Council for nil consideration.</p>

16.2 Details of payments to be made under PFI contracts

The Council makes agreed payments under the schemes detailed in note 16.1 each year, which are increased by inflation, and can be reduced if the contractor fails to meet availability and performance standards, but which are otherwise fixed.

Payments remaining to be made by the Council under the operational phase of its PFI contracts (*excluding any estimation of inflation and availability / performance deductions*) are as follows:

	Estimated timing of payments to PFI/PPP operators						Total
	Within one year	2 - 5 years	6 - 10 years	11 - 15 years	16 - 20 years	21 - 25 years	
	£000	£000	£000	£000	£000	£000	£000
Service charges	6,699	28,613	40,299	40,558	33,041	2,160	151,370
Interest and similar charges	19,038	76,527	92,668	38,503	18,905	952	246,593
Repayment of liability	4,590	24,058	58,371	26,399	31,032	4,212	148,662
Lifecycle replacement	2,667	12,234	16,118	18,453	7,122	543	57,137
Total	32,994	141,432	207,456	123,913	90,100	7,867	603,762

Under existing legislation, the Council expects to continue to receive additional government grant that will broadly cover the capital elements of the payments to contractors.

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16.3 Property, plant and equipment

The assets recognised on the Council's Balance Sheet that are used to provide services in respect of the above schemes are as follows:

31st March 2015 (restated) £000		31st March 2016 £000
Gross Book Value		
165,141	As at 1 April	139,746
-	Additions	-
	Revaluation increases / (decreases) recognised in:	
1,696	Revaluation Reserve	970
189	Surplus/Deficit on the provision of services	(4)
(27,359)	Disposals	(23,625)
79	Transfers to / (from) assets under construction	4
<u>139,746</u>	As at 31 March	<u>117,091</u>
Depreciation / Amortisation		
(24,918)	As at 1 April	(26,396)
1,002	Revaluations and restatements	45
270	Depreciation / amortisation on impairments	-
(2,750)	Depreciation / amortisation for the year	(2,567)
-	Depreciation / amortisation on assets sold	25
<u>(26,396)</u>	As at 31 March	<u>(28,893)</u>
140,223	Net book value at 1 April	113,350
113,350	Net book value at 31 March	88,198

Notes:

- (i) The comparative figures for the prior year have been restated to include a site omitted in error in the 2014/15 Statement of Accounts.
- (ii) The disposals reflect the conversion of PFI schools to academy status during the year.

16.4 Value of PFI liabilities for capital expenditure

The following liability is outstanding to pay the PFI contractors for capital expenditure:

2014/15 £000	2015/16 £000
(158,837)	(154,512)
4,325	5,850
<u>(154,512)</u>	<u>(148,662)</u>

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17. Financial instruments

17.1 Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

31 March 2015			31 March 2016	
Long term	Short term		Long term	Short term
£000	£000		£000	£000
		Financial assets		
		Investments		
1,681	122,277	Loans and receivables	1,683	153,349
3,091	-	Available for sale financial assets	3,277	2,003
16,807	90,661	Debtors (contractual)	16,957	92,530
-	137,193	Cash and cash equivalents	-	58,895
21,579	350,131	Total	21,917	306,777
		Financial liabilities		
(338,751)	(25,920)	Borrowing	(351,620)	(10,632)
(154,459)	(7,105)	PFI / Finance lease liabilities	(149,139)	(5,779)
(34)	(214,909)	Creditors (contractual)	(54)	(208,374)
(493,244)	(247,934)	Total	(500,813)	(224,785)

Notes:

- (i) All categories of financial instruments are held in the Council's Balance Sheet at amortised cost, with the exception of Available for Sale Financial Assets which are held at fair value.
- (ii) Cash and cash equivalents is a financial instrument which is subject to setting off arrangements - the Council's bank overdraft balance has been set-off against the cash and cash equivalent balances held. Further details of this arrangement are disclosed in Note 19 on page 89.
- (iii) The totals for debtors and creditors differ from the Balance Sheet as only those debtors and creditors which arise from contracts are financial instruments. Those debtors and creditors related to statutory debts such as council tax and non-domestic rates are not classified as financial instruments.

17.2 Fair values of financial assets carried at fair value

The financial assets classified as 'available for sale' in note 17.1 comprise investments in a pooled Property Fund and in Certificates of Deposit. These financial assets are measured at fair value on a recurring basis, using input **Level 1** in the fair value hierarchy. This means that fair value is based on the quoted price in an active market for identical shares.

There has been no change in the valuation technique used to determine the fair value of the 'available for sale' financial asset during 2015/16 and there have been no transfers between the input levels in the fair value hierarchy.

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17.3 Fair values for financial assets and liabilities not measured at fair value

Except for the 'available for sale' financial assets described in paragraph 17.2, all other financial assets and all financial liabilities are carried in the Balance Sheet at amortised cost.

The following table compares the carrying and fair values of these financial instruments:

31 March 2015		31 March 2016	
Carrying amount £000	Fair Value £000	Carrying amount £000	Fair Value £000
Financial liabilities			
Borrowing			
(279,199)	(344,940)	(277,905)	(349,074)
(77,926)	(96,104)	(77,928)	(100,141)
(7,546)	(7,546)	(6,419)	(6,419)
(364,671)	(448,590)	(362,252)	(455,634)
(161,564)	(161,564)	(154,918)	(154,918)
(214,943)	(214,943)	(208,428)	(208,428)
(741,178)	(825,097)	(725,598)	(818,980)
Financial Assets			
123,958	123,912	155,032	155,000
137,193	137,193	58,895	58,895
107,468	107,468	109,487	109,487
368,619	368,573	323,414	323,382

Notes:

- (i) The comparative figure for the prior year for the fair value of PWLB loans is on a basis consistent with 2015/16 (i.e. at the 'new loan' rate). The fair value was quoted at the 'premature repayment' rate in the 2014/15 Statement of Accounts.
- (ii) The comparative figures for investments have been restated on a basis consistent with 2015/16 (i.e. to exclude investments carried at their fair value).

Financial liabilities

- The fair value of Public Works Loan Board (PWLB) loans measures the economic effect of terms agreed with the PWLB compared with the estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date, which has been assumed to be the PWLB 'new loan' rate. The difference between the fair value of the PWLB loans (£349.074m) and the carrying amount (£277.905m) therefore measures the additional interest the Council will pay over the remaining terms of the loans, against what would be paid if the loans were at prevailing 'new loan' rates. However, the Council would not simply be able to swap its existing loans for equivalent loans at the 'new loan' rate because the PWLB would raise a penalty charge for early redemption of £136.147m for the additional

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interest that would now not be paid. The exit price for the PWLB loans, including this penalty charge, would therefore be **£414.052m**.

- Whilst the 'fair value' measurements provide an indication of the cost of prematurely repaying existing PWLB and Money Market loans at 31st March 2016, the Council has a Capital Financing Requirement (see note 14 on page 75) well in excess of these loans, and so does not foresee the need to prematurely repay these loans.

Investments and cash

- Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value.
- The fair value of investments varies from the carrying amount because the Council's portfolio of investments includes some fixed rate investments where the interest rate earned is higher than the rates available for similar loans at the balance sheet date.

Other

- The fair value of trade creditors, debtors and PFI liabilities is taken to be the invoiced or billed amount.

17.4 Fair value hierarchy for financial assets and liabilities not measured at fair value

The fair values for financial liabilities and financial assets that are not measured at fair value have all been derived at **level 2** of the fair value hierarchy (i.e. using inputs other than quoted prices that are observable for the financial asset / liability).

The fair value for financial liabilities and financial assets that are not measured at fair value has been assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

Financial Assets	Financial liabilities
<ul style="list-style-type: none">▪ No early repayments or impairment is recognised.	<ul style="list-style-type: none">▪ No early repayment is recognised.
<ul style="list-style-type: none">▪ Estimated ranges of interest rates at 31 March 2016 of 0.25% to 0.49% for loans receivable, based on new lending rates for the remaining period of the deposits at that date.	<ul style="list-style-type: none">▪ Estimated ranges of interest rates at 31 March 2016 of 1.54% to 3.11% for loans payable based on new lending rates for equivalent loans at that date.
<ul style="list-style-type: none">▪ The fair value of trade and other receivables is taken to be the invoiced or billed amount.	

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17.5 Income, expense, gains and losses

The following table provides an analysis of the items included within the Comprehensive Income and Expenditure Statement in relation to income, expense and gains and losses on financial instruments:

2014/15					2015/16			
Financial Assets		Financial	Total		Financial Assets		Financial	Total
Loans and receivables	Available for sale	liabilities			Loans and receivables	Available for sale	liabilities	
£000	£000	£000	£000		£000	£000	£000	£000
-	-	32,304	32,304	Interest expense	-	-	34,493	34,493
-	-	19	19	Fee expense	-	-	36	36
-	-	32,323	32,323	Expenses in surplus / deficit on the provision of services	-	-	34,529	34,529
(2,705)	(149)	-	(2,854)	Interest income	(2,235)	(160)	-	(2,395)
(2,705)	(149)	-	(2,854)	Income in surplus / deficit on the provision of services	(2,235)	(160)	-	(2,395)
-	(329)	-	(329)	Gains on revaluation	-	(186)	-	(186)
-	(329)	-	(329)	Other Comprehensive Income and Expenditure	-	(186)	-	(186)
(2,705)	(478)	32,323	29,140	Net (gain) / loss for the year	(2,235)	(346)	34,529	31,948

17.6 Nature and extent of risks arising from financial instruments

The Council's activities expose it to a variety of financial risks:

- **Credit risk** – the possibility that other parties might fail to pay amounts due to the Council.
- **Liquidity risk** – the possibility that the Council might not have funds available to meet its commitments to make payments.
- **Market risk** – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

The Council's overall treasury risk management framework focuses on the unpredictability of financial markets and arrangements for minimising these risks. An annual **Treasury Management Strategy** is produced in compliance with statutory regulations and the CIPFA Treasury Management Code of Practice (i.e. the CIPFA Treasury Management in the Public Services Code of Practice and Cross Sectoral guidance notes).

Overall, these procedures require the Council to manage risks in the following ways:

- By approving annual limits on the overall level of borrowing, exposure to fixed and variable interest rates, maturity structure of debt and amount that can be invested beyond one year.
- By approving an annual investment strategy that establishes criteria for both investing and selecting counterparties in compliance with government guidance.

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Risk management is carried out by the Council's central treasury team, under policies approved by the Council in the annual **Treasury Management Strategy**. In addition, the Council has written principles for overall risk management, as well as written policies covering specific areas such as interest rate risk, credit risk and the investment of surplus cash.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as from credit exposure associated with the Council's customers.

The Council sought to minimise the credit risks associated with depositing funds with banks and financial institutions by only placing funds with those counterparties that had credit ratings equivalent to, or better than, the credit rating criteria set out within the Council's investment strategy, which is updated annually (as a minimum) and seeks to provide a sound approach to investing in normal market circumstances.

UK banks and building societies, and non UK banks domiciled in a country with a minimum sovereign rating of '**AA**', were considered for inclusion on the Council's lending list during 2015/16 if they had acceptable credit ratings in both of the following categories:

- **Short term rating** – provides an indication of the capacity of the financial institution to meet its financial commitments in the short term.
- **Long term rating** – provides an indication of the capacity of the financial institution to meet its financial commitments over the longer term.

Banks and building societies that satisfied the Council's minimum criteria across each of these categories were eligible to be included on the Council's lending list. The short and long term ratings were further applied to determine the maximum amount that could be invested with individual counterparties and the maximum period of those investments. This approach sought to ensure that the Council applied a consistent approach to the amount, and period, of investments with institutions exposed to similar risks.

Nationalised / part-nationalised financial institutions were also included on the Council's lending list, together with Money Market Funds that were denominated in 'sterling' and regulated within the EU and had an '**AAA**' credit rating.

Application of the credit rating criteria set out within the Annual Investment Strategy meant that the maximum amount invested in 2015/16 by the Council with any financial institution, at any point in time, ranged between **£35m** and **£70m** (*i.e. the limit varied within this range, depending on the relative strength of financial institutions' credit ratings within the acceptable range*).

Surplus cash balances were predominantly invested on a short term basis (*i.e. for periods of up to 364 days*) until the funds were next required. Funds invested on this basis were either placed 'on-call' or in short term 'fixed term' deposits. Because of the short term nature of these investments, the Council was able to respond quickly to changes in credit risk.

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The Council's Investments Strategy also allowed for underlying cash balances to be invested on a longer term basis (*i.e. for periods beyond 364 days*). Because it is not possible to respond to changes in credit risk as quickly, a limit was set within the annual treasury management strategy, upon the total amount that could be invested for periods beyond 364 days. For 2015/16, this limit was **£100m** (2014/15: £100m).

No credit limits were exceeded during 2015/16 and the Council did not experience any losses from non-performance by any of its counterparties in relation to the deposits it placed with them.

The following analysis summarises the Council's potential maximum exposure to credit risk, based on experience of default and collectability over the last five years:

	Amount at 31 March 2016	Historical experience of default	Historical experience adjusted for market conditions at 31 March 2016	Estimated maximum exposure to default and uncollectability
	£000	%	%	£000
Deposits with banks and other financial institutions				
AAA rated	19,700	0.037%	0.037%	7
AA rated	49,300	0.032%	0.032%	16
A rated	144,800	0.081%	0.081%	117
	213,800			140
Debtors (contractual)	109,487	9.259%	9.259%	10,137
Potential maximum exposure to credit risk	323,287			10,277

Of the total amount of debtors at 31 March 2016, the following amounts (analysed by age) are past their due date for payment:

2014/15			2015/16	
Debtors past due date £000	Allowance for doubtful debts £000		Debtors past due date £000	Allowance doubtful debts £000
6,775	388	Less than three months	10,414	1,050
1,994	190	Three to six months	1,837	132
4,291	1,120	Six months to one year	4,277	1,083
11,453	7,494	More than one year	11,997	7,872
24,513	9,192	Total	28,525	10,137

The above table also shows the allowance the Council has made for non-recovery of those debts past their due date; this allowance does not constitute intent to write these debts off, but does recognise the risk that some amounts might not be recovered.

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Liquidity risk

As the Council has ready access to borrowings from the Public Works Loan Board, there are no significant risks that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Council seeks to mitigate against this risk by ensuring a relatively even debt maturity profile, through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments.

The maturity analysis of financial liabilities is as follows:

31 March 2015				Repayment period	31 March 2016			
PWLB	Money Market	Other	Total		PWLB	Money Market	Other	Total
£000	£000	£000	£000		£000	£000	£000	£000
4,447	15,926	5,547	25,920	Less than one year	4,485	928	5,219	10,632
4,447	15,926	5,547	25,920	Short term borrowing	4,485	928	5,219	10,632
1,312	22,000	800	24,112	Between 1 and 2 years	1,366	-	1,200	2,566
4,265	40,000	1,200	45,465	Between 2 - 5 years	19,439	-	-	19,439
38,350	-	-	38,350	Between 5 - 10 years	23,260	-	-	23,260
44,213	-	-	44,213	Between 10 - 25 years	47,763	-	-	47,763
108,611	-	-	108,611	Between 25 - 40 years	121,592	-	-	121,592
78,000	-	-	78,000	Between 40 - 50 years	60,000	-	-	60,000
-	-	-	-	Over 50 years	-	77,000	-	77,000
274,751	62,000	2,000	338,751	Long term borrowing	273,420	77,000	1,200	351,620
279,198	77,926	7,547	364,671	Total borrowing	277,905	77,928	6,419	362,252

The maturity analysis of money market loans shown above assumes that these loans will be repaid in full at the next opportunity the lender has to vary the loan terms. In reality, these loans may run for many years beyond these dates.

Market risk

▪ Interest rate risk

The Council is exposed to significant risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates could have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- Borrowings at fixed rates – the fair value of borrowings will fall;
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and

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- Investments at fixed rates – the fair value of the assets will fall.

Borrowing and the majority of investments are not carried at fair value, so nominal gains and losses on fixed rate borrowing and investments would not impact on the Surplus/deficit on the Provision of Services. However, changes in interest payable and receivable on variable rate borrowings and investments will impact on the amount charged / credited to the Comprehensive Income and Expenditure Statement and affect the General Fund Balance pound for pound.

The Council has a number of strategies for managing interest rate risk. The overall policy is to aim to keep a maximum of **30%** of borrowings in variable rate loans (2014/15: 30%). During periods of falling interest rates, and where economic circumstances are favourable, the Council may seek to repay fixed rate loans early to limit exposure to losses.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

If interest rates had been **1%** higher throughout 2015/16 (with all other variables held constant) the Council's net interest burden would have been lower than that shown in Note 17.5, as follows:

2014/15 £000		2015/16 £000
	Impact on the Comprehensive Income and Expenditure Statement	
503	Interest payable on variable rate borrowing	519
(1,969)	Interest receivable on variable rate investments	(1,579)
<u>(1,466)</u>	Net (gain) / loss	<u>(1,060)</u>

Price risk

The Council does not invest in equity shares and is therefore not exposed to gains or losses arising from movements in the prices of shares except where this impacts on its share of the liability of the Pension Fund. It has however made a modest investment in a pooled property fund which is classified as 'available for sale', meaning that all movements in price will impact on gains and losses recognised in Other Comprehensive Income and Expenditure in the Comprehensive Income and Expenditure Statement. In 2015/16, a gain was recognised in 'Other Comprehensive Income and Expenditure' (see note 17.5, on page 84).

Foreign exchange risk

The Council has no financial assets or liabilities denominated in foreign currencies, thus it does not have exposure to loss arising from movements in exchange rates.

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18. Debtors

The following table analyses short and long term debtors by counter party grouping:

31 March 2015			31 March 2016		
Short term £000	Long term £000	Total £000	Short term £000	Long term £000	Total £000
Public sector bodies					
21,373	-	21,373	14,544	-	14,544
19,544	14,007	33,551	21,025	13,345	34,370
2,547	-	2,547	5,277	-	5,277
-	-	-	1	-	1
43,464	14,007	57,471	40,847	13,345	54,192
84,533	2,800	87,333	89,378	3,612	92,990
127,997	16,807	144,804	130,225	16,957	147,182
Total			Total		

19. Cash and cash equivalents

The following table shows the balance of cash and cash equivalents at 31 March.

31st March 2015 £000		31st March 2016 £000
Amounts that form an integral part of the Council's cash management		
95,961	Cash repayable on demand	34,189
51,025	Cash equivalents	24,803
(55,207)	Bank overdraft	(43,696)
259	Petty cash balances	110
92,038		15,406
45,155	Cash held by schools	43,489
137,193	Total of cash and cash equivalents	58,895

The Council holds a number of bank accounts which can fluctuate significantly depending on cash receipts and payments, and may become overdrawn. However, the Council's banking arrangements mean that agreed overdraft charges are only incurred by the Council where the aggregate balance on all accounts is in an overdraft position.

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20. Creditors

The following table analyses short and long term creditors by counter party grouping:

31st March 2015				31st March 2016		
Short term £000	Long term £000	Total £000		Short term £000	Long term £000	Total £000
			Public sector bodies			
8,605	-	8,605	Central government bodies	8,485	-	8,485
21,676	-	21,676	Other local authorities	24,958	12	24,970
5,648	-	5,648	NHS bodies	4,200	-	4,200
11	-	11	Public corporations	125	-	125
35,940	-	35,940		37,768	12	37,780
190,356	34	190,390	Other entities	183,953	42	183,995
226,296	34	226,330	Total	221,721	54	221,775

21. Grant receipts in advance

Where grants or contributions have been received, but the conditions attached to the funding are not satisfied, the amount is carried in the Balance Sheet as a receipt in advance. An analysis of the amounts carried in the Balance Sheet as a receipt in advance is as follows:

31st March 2015			31st March 2016	
Revenue £000	Capital £000		Revenue £000	Capital £000
Department for Education (incl. Education Funding Agency)				
		Education Funding Agency		
7,108	-	Dedicated Schools Grant	6,290	-
855	-	Other Education Funding Agency grants	217	-
601	7,439	Department for Education grants	737	1,170
8,564	7,439		7,244	1,170
Other grants				
1,797	-	Department of Health grants	142	-
122	2,087	Department for Transport grants	122	-
819	59	Other grants	739	2,133
2,738	2,146		1,003	2,133
11,302	9,585	Total of grant receipts in advance	8,247	3,303
4,600	42,700	Developer contributions (S106)	4,324	50,565
15,902	52,285	Total	12,571	53,868

Note: Whilst comparative figures for the prior year are consistent overall with the figures presented in the 2014/15 Statement of Accounts, some grants have been grouped together where the amounts are minor and/or where there are no similar amounts were received in 2015/16.

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22. Provisions and contingent liabilities

22.1 Provisions

The Council has set funds aside as provisions to meet obligations related to events that have taken place which probably require settlement by the transfer of economic benefits.

Provisions are split on the Council's Balance Sheet between current (amounts expected to be settled within 12 months) and non-current (those expected to be settled beyond the next 12 months). An analysis of current and non-current provisions is provided in the following table.

	Insurance Provision	Landfill aftercare	Non-domestic rating appeals	Restructuring	Carbon Reduction Commitment	Other provisions	Total
	£000	£000	£000	£000	£000	£000	£000
Current provisions							
Balance at 31st March 2015	(7,000)	(288)	(5,400)	(1,131)	(1,043)	(331)	(15,193)
Amounts arising	-	-	(2,587)	(364)	(750)	(2,240)	(5,941)
Provisions reversed	-	-	-	99	317	125	541
Provisions utilised	5,860	435	1,310	1,174	726	184	9,689
Unwinding of discount	-	(11)	-	-	-	-	(11)
Amounts reclassified as current	(5,860)	(498)	-	-	-	-	(6,358)
Balance at 31st March 2016	(7,000)	(362)	(6,677)	(222)	(750)	(2,262)	(17,273)
Non-current provisions							
Balance at 31st March 2015	(14,125)	(8,351)	-	-	-	-	(22,476)
Amounts arising	(5,408)	(2,771)	-	-	-	-	(8,179)
Provisions reversed	-	-	-	-	-	-	-
Provisions utilised	-	-	-	-	-	-	-
Amounts reclassified as current	5,860	498	-	-	-	-	6,358
Balance at 31st March 2016	(13,673)	(10,624)	-	-	-	-	(24,297)
Total current and non-current provisions							
31st March 2015	(21,125)	(8,639)	(5,400)	(1,131)	(1,043)	(331)	(37,669)
31st March 2016	(20,673)	(10,986)	(6,677)	(222)	(750)	(2,262)	(41,570)

An explanation of each provision is as follows:

Provision	Purpose
Insurance	<p>The Insurance Provision represents the estimated outstanding liabilities of the Council that are likely to be paid over a number of years. They arise due to the self-insured elements of the Council's Insurance programme and other claims related to the period when Municipal Mutual Insurance (MMI) and Independent Insurance were the Council's insurers.</p> <p>MMI insured the Council's liability risks from 1983, until they ceased trading in 1992. Since ceasing trading, MMI has been dealing with all outstanding claims, operating under a contingent Scheme of Arrangements. This Scheme allows MMI to claw back monies paid (in the form of a levy) from the scheme participants in the event that it has insufficient funds to pay remaining claims itself.</p> <p>The Scheme was triggered, and therefore came into effect, on 13th November 2012. As a result, the Council was required to make an initial levy payment of £1.149m to the Scheme Administrator in 2014/15, equivalent to 15% of all claims it had received settlement for since 1993. The Council has been required to meet 15% of any</p>

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Provision	Purpose
	<p>subsequent claims made since the initial levy payment was made.</p> <p>With effect from 1 April 2016, the levy increases to 25%. As a consequence, a second levy payment of £767,000 is being made in 2016/17, equivalent to a further 10% of all claims for which it has received settlement since 1993 to date. The Council will be required to meet 25% of any claims made subsequent to this second levy payment being made. The Insurance Provision includes an allowance for this liability.</p> <p>Independent Insurance was the Council's insurer for the liability classes of business from 1st April 1993 to 31st March 2001, and went into provisional liquidation on 17th June 2001. In January 2015, the Administrator signalled an intention to form a Scheme of Arrangement as an alternative to provisional liquidation. The Scheme was subsequently sanctioned. It is currently estimated that 10% of outstanding claims notified to the Administrators will be considered for compensation.</p>
Landfill aftercare	<p>The Council has responsibility for the aftercare of twelve former landfill sites. Restoration work was undertaken at all sites during the 1990's, when the sites were closed. However, the Council continues to monitor each site, and to operate and maintain pollution control infrastructure, to ensure that these sites do not bring harm to human health, property and the environment; the Council will have this obligation until the sites become inert.</p> <p>As the Council expects to discharge its environmental monitoring liabilities over a prolonged period, the provision has been discounted to the present value of the expenditures expected to be required to settle the obligation.</p>
Non-domestic rating appeals	<p>Under the legislative framework for the Collection Fund, billing and precepting authorities share proportionately the risks that the amount of non-domestic rates collectible could be affected by the requirement to make backdated refunds to non-domestic ratepayers who lodge appeals against the Valuation Rating Lists. For this reason, the Council's Balance Sheet includes an attributable share of the provisions raised by the billing authorities for non-domestic rating appeals.</p>
Restructuring	<p>This provision represents the best estimate of the amount the Council is committed to pay as a consequence of formal plans for the restructuring of certain services, where these plans are likely to result in the termination of a number of employees' employment before their normal retirement date.</p>
Carbon reduction commitment	<p>This provision represents the Council's liability to purchase and surrender Carbon Reduction Commitment (CRC) carbon allowances, in accordance with the requirements of the CRC Energy Efficiency Scheme, in respect of CO² emissions.</p>
Other	<p>Provisions have been established for various matters.</p>

Statement of Accounts - Notes to the Financial Statements

22.2 Contingent Liabilities

As at 31st March 2016, the Council had two contingent liabilities:

- **Waste Treatment Plant**

As detailed in Note 16, on page 78, the Council entered into a Private Finance Initiative contract for the design, construction and operation of a waste treatment plant in Basildon in May 2012. In accordance with the contract the Council is working with the contractor to ensure the contract milestones that trigger entitlement to payment and relevant acceptance tests criteria will be met to the satisfaction of the Council before the contract 'long stop date' in January 2017.

The Council is in the commissioning phase of the PFI Waste Treatment Facility and has been involved in ongoing discussions with the operator Urbaser Balfour Beatty regarding technical matters. To date the Facility has not yet operated at the level required by the contract. Consequently, the Parties are utilising the appropriate contractual mechanisms to resolve the issues that have occurred in this commissioning phase. Matters where no agreement has been reached have been referred to an independent expert for consideration and to determine an outcome. As at the date of these accounts all parties have made detailed submissions to the expert who is considering these issues and therefore the outcome remains uncertain.

It is not possible to provide an indication if any additional contract costs will be incurred as a result of the range of possible outcomes. The Council has taken expert advice and as a result no liability has been recorded in these financial statements.

- **Inflationary uplift on a contract for services**

The Council has received a claim of **£3.8m** from a residential care provider for a backdated inflationary uplift on a contract for services. The extent of the Council's liability has yet to be determined.

23. Usable reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement, which is shown on page 29.

24. Unusable reserves

24.1 Introduction

The Council maintains a number of unusable reserves which are held for statutory reasons or to comply with proper accounting practice. The Council is not able to use these reserves to provide services. Notes 24.2 to 24.8 explain the purpose of each unusable reserve and the movements in these reserves during the year.

Statement of Accounts - Notes to the Financial Statements

24.2 Revaluation Reserve

This reserve records the gains made by the Council arising from increases in the value of its property, plant and equipment. The balance is reduced when assets with accumulated gains are:

- Re-valued downwards or impaired and the gains are lost;
- Used in the provision of services and the gains are consumed through depreciation; or
- Disposed of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was established. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account. The following table provides an analysis of the movements on the Revaluation Reserve:

2014/15		2015/16	
£000		£000	£000
(392,474)	Balance as at 1 April		(492,334)
(184,344)	Revaluation of non current assets (increases)	(86,510)	
37,889	Revaluation of non current assets (subsequent decreases)	31,451	
1,080	Impairment of non-current assets	-	
(145,375)	Surplus on revaluations		(55,059)
13,287	Depreciation on revaluation gains	13,160	
32,228	Accumulated gains on assets sold or scrapped	19,605	
45,515	Amounts written off to the Capital Adjustment Account		32,765
(492,334)	Balance as at 31 March		(514,628)

24.3 Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

Statement of Accounts - Notes to the Financial Statements

The following table provides an analysis of the movements on the Capital Adjustment Account.

2014/15 Restated £000		2015/16	
		£000	£000
(1,439,616)	Balance as at 1 April		(1,345,175)
	Reversal of items related to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement		
72,257	Depreciation	69,882	
24,857	Impairment of non-current assets	35,547	
-	Donated assets	(16,509)	
27,975	Revenue expenditure financed from capital under statute	40,832	
210,978	Cost / value of assets disposed of during the year	109,082	
336,067			238,834
	Adjusting amounts written out of the Revaluation Reserve		
(13,287)	Difference between fair value and historical cost depreciation	(13,160)	
(32,228)	Revaluation gains outstanding for assets upon disposal	(19,605)	
(45,515)			(32,765)
290,552	Net written out amount of the cost of non current assets consumed in the year		206,069
	Capital financing applied in the year		
(22,069)	Revenue reserves applied	(14,806)	
(33,159)	Statutory provision for the financing of capital investment	(34,152)	
(30,437)	Capital receipts applied	(12,640)	
	Capital grants and contributions applied to finance:		
(80,980)	Capital Expenditure	(127,995)	
(15,170)	Revenue expenditure funded from capital	(12,179)	
(13,023)	Application of grants from the Capital Grants Unapplied Account	(1,655)	
(194,838)			(203,427)
(1,273)	Movement in market value of investment properties		(641)
(1,345,175)	Balance as at 31 March		(1,343,174)

Note: Details of the restatement of comparative figures for 2014/15 are provided in note 4 (see page 55).

24.4 Financial Instruments Adjustment Account

This account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage:

- Premiums paid on the early redemption of loans, such that the expense is recognised in the General Fund over the unexpired term that was outstanding on the loans when they were redeemed; and
- Discounts received on the early redemption of loans, such that the benefit is recognised in the General Fund over a maximum period of 10 years.

Statement of Accounts - Notes to the Financial Statements

2014/15				2015/16		
Premiums £000	Discounts £000	Total £000		Premiums £000	Discounts £000	Total £000
7,457	(4,236)	3,221	Balance as at 1 April	7,235	(4,054)	3,181
(127)	19	(108)	Amortisation of premiums / discounts to the General Fund	(128)	19	(109)
(95)	163	68	Transfer from the General Fund for the difference between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statutory provisions relating to premiums and discounts on the early repayment of debt	(95)	164	69
7,235	(4,054)	3,181	Balance as at 31 March	7,012	(3,871)	3,141

24.5 Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- Re-valued downwards or impaired and the gains are lost; or
- Disposed of and the gains are realised.

2014/15 £000		2015/16 £000
(262)	Balance as at 1 April	(591)
(329)	Upward revaluation of investments	(186)
(591)	Balance as at 31 March	(777)

24.6 Pension Reserve

The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require the Council to finance benefits earned as it makes employer's contributions to pension funds, or eventually pays any pensions for which it is directly responsible. The Pension Reserve therefore absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions.

Statement of Accounts - Notes to the Financial Statements

2014/15				2015/16		
LGPS £000	Teachers £000	Total £000		LGPS £000	Teachers £000	Total £000
818,740	42,761	861,501	Balance as at 1 April	971,756	44,268	1,016,024
			Pension Reserve appropriation to / (from) the General Fund for:			
75,162	1,566	76,728	Reversal of items relating to retirement benefits debited or credited to the surplus/deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	93,701	1,026	94,727
(53,244)	(3,128)	(56,372)	Council contributions to the schemes	(52,785)	(3,040)	(55,825)
21,918	(1,562)	20,356	Total appropriation from Pension Reserve	40,916	(2,014)	38,902
131,098	3,069	134,167	Remeasurements of the net pension liability	(119,584)	(1,144)	(120,728)
971,756	44,268	1,016,024	Balance as at 31 March	893,088	41,110	934,198

The balance on the Pensions Reserve shows the substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. Statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

24.7 Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2014/15				2015/16		
Council Tax £000	Non-domestic rates £000	Total £000		Council Tax £000	Non-domestic rates £000	Total £000
(13,657)	1,670	(11,987)	Balance at 1 April	(18,863)	3,192	(15,671)
(5,206)	1,522	(3,684)	Amount by which income credited to the Comprehensive Income and Expenditure Statement is different from income calculated for the year in accordance with statutory requirements	940	(213)	727
(18,863)	3,192	(15,671)	Balance as at 31 March	(17,923)	2,979	(14,944)

Statement of Accounts - Notes to the Financial Statements

24.8 Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for paid absences earned but not taken in the year (e.g. annual leave entitlement carried forward at 31st March). Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2014/15 £000		2015/16 £000 £000	
14,981	Balance as at 1 April		12,168
(14,981)	Settlement or cancellation of accrual made at the end of the preceding year	(12,168)	
12,168	Amounts accrued for at the end of the current year	10,667	
<u>(2,813)</u>	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		<u>(1,501)</u>
<u>12,168</u>	Balance as at 31 March		<u>10,667</u>

25. Cash Flows from operating, investing and financing activities

The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council.

Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery.

Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

Statement of Accounts - Notes to the Financial Statements

The cash flows from operating, investing and financing activities include the following items:

2014/15		2015/16	
£000		£000	£000
Cash flows from operating activities			
Cash inflows			
(575,841)	Taxation	(593,413)	
(1,095,012)	Grants	(1,014,316)	
(193,755)	Sales of goods and rendering of services	(266,342)	
(3,138)	Interest received	(2,783)	
<u>(1,867,746)</u>			(1,876,854)
Cash outflows			
562,753	Cash paid to and on behalf of employees	529,949	
33,057	Interest paid	35,385	
1,113,754	Cash paid to suppliers of goods and services	1,158,038	
123,961	Other payments for operating activities	120,216	
<u>1,833,525</u>			1,843,588
<u>(34,221)</u>	Net inflow of cash from operating activities		<u>(33,266)</u>
Cash flows from investing activities			
Cash inflows			
(9,161)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(12,640)	
(27,000)	Proceeds from short and long term investments	-	
(102,647)	Other receipts from investing activities	(140,846)	
<u>(138,808)</u>			(153,486)
Cash outflows			
161,572	Purchase of property, plant and equipment, investment property and intangible assets	180,506	
-	Purchase of short and long term investments	33,000	
28,361	Other payments for investing activities	42,117	
<u>189,933</u>			255,623
<u>51,125</u>	Net outflow of cash from investing activities		<u>102,137</u>
Cash flows generated from financing activities			
Cash inflows			
(4,120)	Cash receipts of short and long term borrowing	-	
(114)	Other receipts from financing activities	(114)	
<u>(4,234)</u>			(114)
Cash outflows			
5,685	Cash payments for the reduction of liabilities related to Finance Leases (incl. PFI contracts)	7,122	
32	Repayment of short and long term borrowing	2,419	
<u>5,717</u>			9,541
<u>1,483</u>	Net outflow of cash from financing activities		<u>9,427</u>
<u>18,387</u>	Net decrease in cash and cash equivalents		<u>78,298</u>

Statement of Accounts - Notes to the Financial Statements

26. Amounts reported for resource allocation decisions

26.1 Analysis of income and expenditure

The analysis of services' income and expenditure on the face of the Comprehensive Income and Expenditure Statement is that specified by the CIPFA Service Reporting Code of Practice 2015/16. However, decisions about resource allocation are taken by the Council on the basis of Cabinet Members' respective responsibilities for service delivery.

Cabinet reports are prepared on a different basis to that applied in the financial statements. In particular:

- No charges are made in relation to capital expenditure, whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement;
- The cost of retirement benefits is based upon payment of employer's pension contributions rather than current service cost of benefits accrued in the year; and
- Expenditure on support services is accounted for centrally, whereas it is charged to services in the Comprehensive Income and Expenditure Statement.

The income and expenditure of each of the Cabinet members' portfolios is shown in the following table.

Prior year comparatives have been restated in accordance with the respective responsibilities of Cabinet Members throughout 2015/16.

Analysis of amounts reported for resource allocation

2014/15	Grants	Other income			Expenditure						Controllable Net Expenditure
		Fees, charges and other service income	Interest and investment income	Corporate amounts	Employee expenses	Other Service expenses	Interest payable and similar charges	Precepts & levies	Gain or loss on disposal of fixed assets	Corporate amounts	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Adult Social Care	(36,709)	(73,256)	-	-	43,544	443,353	-	-	-	-	376,932
Children and Families	(7,707)	(2,501)	-	-	55,771	76,666	-	-	-	-	122,229
Corporate, Communities and Customers	(275)	(6,154)	-	-	16,114	9,387	-	-	-	8	19,080
Deputy Leader and Economic Growth and Waste and Recycl	(880)	(3,597)	-	-	4,433	72,686	9	-	-	377	73,028
Education and Lifelong Learning	(634,218)	(51,323)	-	-	456,675	262,567	9,635	-	-	2,041	45,377
Finance	(438)	(1,125)	-	-	11,500	3,963	-	1,769	-	-	15,669
Health	(60,096)	(2,862)	-	-	6,635	70,753	-	-	-	-	14,430
Infrastructure Delivery and Highways and Transportation	(3,036)	(18,240)	-	-	9,890	100,184	8,224	-	-	3,789	100,811
Leader	(1,198)	(3,205)	-	-	7,075	7,740	1	1,532	-	-	11,945
	(744,557)	(162,263)	-	-	611,637	1,047,299	17,869	3,301	-	6,215	779,501
Recharged Support Services											
Business Support	-	-	-	-	-	10,174	-	-	-	-	10,174
Facilities Management Service	-	-	-	-	-	24,297	-	-	-	-	24,297
Finance	-	-	-	-	-	13,942	-	-	-	-	13,942
Human Resources	-	-	-	-	-	6,675	-	-	-	-	6,675
Information Services	-	-	-	-	-	20,360	-	-	-	-	20,360
Procurement	-	-	-	-	-	5,356	-	-	-	-	5,356
Transformation Support Unit	-	-	-	-	-	6,220	-	-	-	-	6,220
Other Recharged Strategic Support Services	-	-	-	-	-	17,049	-	-	258	-	17,307
Operating costs	-	-	(2,854)	(94,100)	-	-	14,494	-	-	132,883	50,423
Net cost of services (portfolios)	(744,557)	(162,263)	(2,854)	(94,100)	611,637	1,151,372	32,363	3,301	258	139,098	934,255

2015/16	Grants	Income			Expenditure						Controllable Net Expenditure
		Fees, charges and other service income	Interest and investment income	Corporate amounts	Employee expenses	Other Service expenses	Interest payable and similar charges	Precepts & levies	Gain or loss on disposal of fixed assets	Corporate amounts	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Adult Social Care	(2,895)	(115,905)	-	-	45,725	455,123	-	-	-	-	382,048
Children and Families	(6,913)	(3,231)	-	-	52,371	73,920	-	-	-	1,247	117,394
Corporate, Communities and Customers	(73)	(6,203)	-	-	15,585	6,483	43	-	-	11	15,846
Deputy Leader and Economic Growth and Waste and Recycl	(607)	(3,059)	-	-	5,311	77,520	11	-	-	424	79,600
Education and Lifelong Learning	(601,967)	(69,209)	-	-	419,996	290,754	9,633	-	-	2,232	51,439
Health	(58,021)	(2,697)	-	-	5,547	84,410	-	-	-	-	29,239
Finance	(432)	(1,118)	-	-	11,677	7,731	-	1,828	-	-	19,686
Infrastructure Delivery and Highways and Transportation	(1,406)	(18,989)	-	-	9,573	81,518	10,502	-	-	5,110	86,308
Leader	(3,824)	(2,975)	-	-	7,359	7,644	1	1,489	-	-	9,694
Sub total	(676,138)	(223,386)	-	-	573,144	1,085,103	20,190	3,317	-	9,024	791,254
Recharged Support Services											
Business Support	-	-	-	-	-	9,012	-	-	-	-	9,012
Facilities Management Service	-	-	-	-	-	22,424	-	-	-	-	22,424
Finance	-	-	-	-	-	13,861	-	-	-	-	13,861
Human Resources	-	-	-	-	-	5,491	-	-	-	-	5,491
Information Services	-	-	-	-	-	21,698	-	-	-	-	21,698
Procurement	-	-	-	-	-	4,675	-	-	-	-	4,675
Transformation Support Unit	-	-	-	-	-	5,536	-	-	-	-	5,536
Other Recharged Strategic Support Services	-	-	-	-	-	16,885	-	-	287	-	17,172
Operating costs	-	-	(2,395)	(111,084)	-	-	14,379	-	-	120,364	21,264
Net cost of services (portfolios)	(676,138)	(223,386)	(2,395)	(111,084)	573,144	1,184,685	34,569	3,317	287	129,388	912,387

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26.2 Reconciliation to the Cost of Services

The following table provides a reconciliation of the 'Cabinet' analysis to the amounts included in the Comprehensive Income and Expenditure Statement:

2014/15 £000		2015/16 £000
934,255	Net expenditure in the Portfolio Analysis	912,387
182,624	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	226,627
(169,796)	Amounts included in the Analysis but not included in the Cost of Services in the Comprehensive Income and Expenditure Statement	(142,865)
947,083	Cost of Services in the Comprehensive Income & Expenditure Statement	996,149

26.3 Reconciliation to Subjective Analysis

The following reconciliation shows how the figures in the analysis of Cabinet Members' income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.

Reconciliation to Subjective Analysis - 2014/15

2014/15	Portfolio Analysis	Amounts not reported to management for decision making	Amounts not included in the Cost of Services	Cost of Services	Corporate amounts	(Surplus) / deficit on the provision of services
	£000	£000	£000	£000	£000	£000
Fees, charges and other service income	(162,263)	(2,080)	-	(164,343)	-	(164,343)
Interest and investment income	(2,854)	-	2,854	-	(2,854)	(2,854)
Corporate amounts	(94,100)	-	94,192	92	(69,613)	(69,521)
Income from council tax	-	-	-	-	(539,800)	(539,800)
Income from non domestic rates	-	-	-	-	(39,725)	(39,725)
Total income	(259,217)	(2,080)	97,046	(164,251)	(651,992)	(816,243)
Total Government Grants	(744,557)	(12,988)	-	(757,545)	(441,416)	(1,198,961)
Employee expenses	611,637	73,915	(93,135)	592,417	-	592,417
Other service expenditure	1,151,372	27,975	-	1,179,347	-	1,179,347
Depreciation, amortisation and impairment	-	97,115	-	97,115	-	97,115
Donated assets	-	-	-	-	-	-
Interest payable and similar charges	32,363	(40)	(32,323)	-	32,323	32,323
Precepts and levies	3,301	-	(3,301)	-	3,301	3,301
Gain or loss on disposal of fixed assets	258	-	(258)	-	202,075	202,075
Corporate amounts	139,098	(1,273)	(137,825)	-	101,140	101,140
Total gross expenditure	1,938,029	197,692	(266,842)	1,868,879	338,839	2,207,718
Deficit on the provision of services	934,255	182,624	(169,796)	947,083	(754,569)	192,514

Reconciliation to Subjective Analysis - 2015/16

2015/16	Portfolio Analysis	Amounts not reported to management for decision making	Amounts not included in the Cost of Services	Cost of Services	Corporate amounts	(Surplus) / deficit on the provision of services
	£000	£000	£000	£000	£000	£000
Fees, charges and other service income	(223,386)	(3,996)	-	(227,382)	-	(227,382)
Interest and investment income	(2,395)	-	2,395	-	(2,395)	(2,395)
Corporate amounts	(111,084)	-	111,172	88	(59,335)	(59,247)
Income from council tax	-	-	-	-	(550,420)	(550,420)
Income from non domestic rates	-	-	-	-	(42,266)	(42,266)
Total income	(336,865)	(3,996)	113,567	(227,294)	(654,416)	(881,710)
Total Government Grants	(676,138)	(8,183)	-	(684,321)	(485,826)	(1,170,147)
Employee expenses	573,144	93,226	(89,552)	576,818	-	576,818
Other service expenditure	1,184,685	40,832	-	1,225,517	-	1,225,517
Depreciation, amortisation and impairment	-	105,429	-	105,429	-	105,429
Interest payable and similar charges	34,569	(40)	(34,529)	-	34,529	34,529
Precepts and levies	3,317	-	(3,317)	-	3,317	3,317
Gain or loss on disposal of fixed assets	287	-	(287)	-	96,729	96,729
Corporate amounts	129,388	(641)	(128,747)	-	87,685	87,685
Total gross expenditure	1,925,390	238,806	(256,432)	1,907,764	222,260	2,130,024
Deficit on the provision of services	912,387	226,627	(142,865)	996,149	(917,982)	78,167

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27. Termination benefits

The Council is undertaking a major transformation programme to improve core services, meet difficult budget pressures in challenging times and deliver better customer services. This transformation programme includes projects aimed at modernising working practices and utilising mobile technology and will reshape the Council into a smaller core organisation.

An unavoidable consequence of this programme is that a number of employees were made redundant during 2014/15 and 2015/16. The liabilities were recognised in the Cost of Services, in the Comprehensive Income and Expenditure Statement, as follows:

2014/15 £000		2015/16 £000	
318	Adult Social Care	1,185	
3,680	Children's and Education Services	1,774	
863	Cultural and Related Services	1,045	
60	Environmental and Regulatory Services	16	
66	Highways and Transport Services	-	
78	Planning Services	-	
37	Central Services to the public	468	
624	Trading activities	35	
5,726	Total	4,523	

Notes:

The above figures include provision for termination benefits arising from formal plans for the restructuring of certain services, where actual exit packages have yet to be agreed at each 31st March. Provision is raised on the basis of the best estimate of costs.

The numbers of exit packages agreed in each year are set out in the table below:

2014/15				2015/16				
No. packages agreed in the year			Total cost of packages £000	Value of exit packages	No. packages agreed in the year			Total cost of packages £000
Compulsory	Other	Total			Compulsory	Other	Total	
172	123	295	2,029	Less than £20,000	48	56	104	811
22	37	59	1,814	£20,000 to £39,999	7	23	30	854
6	9	15	876	£40,000 to £79,999	4	10	14	806
-	-	-	-	£80,000 to £99,999	-	2	2	174
2	-	2	251	£100,000 to £199,999	3	4	7	1,076
-	-	-	-	£200,000 to £349,999	-	2	2	536
202	169	371	4,970	Total no. of agreed packages	62	97	159	4,257
			756	Other termination benefits				266
			5,726					4,523

The packages are those that have been agreed by the Council. The agreement may be legal, contractual or constructive at the end of the financial year in question. The exit packages include

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all redundancy costs, pension contributions in respect of added years, ex gratia payments and other departure costs.

The Council is required to recognise the costs of termination benefits within the Comprehensive Income and Expenditure Statement when it can no longer withdraw the offer of those benefits and when the Council recognises costs for restructuring (that are in accordance with proper accounting practice) involving the payment of termination benefits, even if individual exit packages have yet to be agreed. For this reason, the total cost of packages agreed may differ from the amounts charged to the Comprehensive Income and Expenditure Statement in each year; the 'other termination benefits' line provides a reconciliation between the total cost of packages agreed and the amounts charged to the Comprehensive Income and Expenditure Statement.

28. Pension Schemes accounted for as Defined Contribution Schemes

The Council has two pension schemes which are accounted for as defined contribution schemes:

- **Teachers' Pension Scheme**

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Capita on behalf of the Teachers Pensions Agency. The scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. The Teachers' pension scheme has in excess of **7,100** participating employers.

- **NHS Pension Scheme**

Staff performing public health functions who were compulsorily transferred from a local primary care trust to the Council, and who had access to the NHS Pension Scheme on 31 March 2013, retained access to that Scheme on transfer to the Council on 1 April 2013.

The NHS Pension Scheme provides these employees with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on contribution rates set by the Secretary of State. The NHS Pension Scheme has in excess of **9,000** participating employers.

These schemes are defined benefit schemes. They are unfunded and the Scheme Administrators use notional funds as the basis for calculating the employer's contribution rates to be paid by the participating employers.

Due to the number of participating employers within the schemes, the Council is not able to identify its share of the underlying financial position and performance of the Schemes with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, both schemes are accounted for on the same basis as a defined contribution scheme.

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The following table shows the amounts the Council paid for pension costs in relation to these schemes:

2014/15				2015/16		
Teachers £000	NHS £000	Total £000		Teachers £000	NHS £000	Total £000
27,536	152	27,688	Employer's contributions	27,777	116	27,893
18,559	130	18,689	Employee contributions	16,372	104	16,476
46,095	282	46,377	Total	44,149	220	44,369

In relation to both schemes, the Council's contributions are set in relation to the current service period only. As such, the Council is not entitled to, or liable for, any of the underlying assets or liabilities of the schemes.

The amounts in the above table reflect:

	Teachers		NHS	
	2014/15	2015/16	2014/15	2015/16
Employer's contribution rate	14.1%	14.1% (Apr-Aug 2015) 16.48% (from Sept 2015)	14%	14.3%
Employee contribution rate	6.4% to 12.4%	7.4% to 11.7%	5.0% to 14.5%	5.0% to 14.5%

There were no contributions remaining payable as at 31 March 2016 (31 March 2015: Nil).

The Council is responsible for all pension payments relating to added years that it has awarded to teachers, together with the related increases. These costs are accounted for on a defined benefit basis and are detailed in note 29 below.

29. Defined Benefit Pension Schemes

29.1 Participation in Pension Schemes

As part of the terms and conditions of the employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

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The Council participates in two schemes:

- **The Local Government Pension Scheme (LGPS)**

The LGPS is a defined benefit statutory scheme, which means that the Council and employees pay contributions into the Fund, calculated at a level intended to balance the pension liabilities with investment assets.

The Administering Authority for the Fund is Essex County Council. The Fund is administered in accordance with the Local Government Pension Scheme Regulations 2014. The LGPS is contracted out of the State Second Pension and provides benefits based on career average re-valued salary and length of service on retirement.

The LGPS is operated under the regulatory framework and the governance of the scheme is the responsibility of the Essex Pension Fund Committee. The Pension Fund Committee oversees the management of the Fund whilst the day to day fund administration is undertaken by a team within the administering authority. Where appropriate some functions are delegated to the Fund's professional advisers.

As administering authority to the Fund, Essex County Council, after consultation with the Fund Actuary and other relevant parties, is responsible for the preparation and maintenance of the Funding Strategy Statement and the Statement of Investment Principles. These should be amended when appropriate based on the Fund's performance and funding.

Contributions are set every three years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation of the Fund will be carried out as at 31 March 2016 and will set contributions for the period from 1 April 2017 to 31 March 2020. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions.

In general, participating in a defined benefit pension scheme means that the Employer is exposed to a number of risks:

- **Investment risk** - the Fund holds investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges.
- **Interest rate risk** - the Fund's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way.
- **Inflation risk** - all of the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation.
- **Longevity risk** - in the event that the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

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In addition, as many unrelated employers participate in the Essex Pension Fund, there is an orphan liability risk where employers leave the Fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers.

All of the risks above may also benefit the Employer (*e.g. higher than expected investment returns or employers leaving the Fund with excess assets which eventually get inherited by the remaining employers*). However, these risks are also mitigated, to a certain extent, by the statutory requirements to charge to the General Fund the amounts required by statute as described in accounting policy note 1.8.3.

- **Award of discretionary post-retirement benefits upon early retirement in relation to the teachers' pension scheme**

This is an unfunded defined benefits arrangement, under which the liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet the actual pension payments as they eventually fall due.

29.2 Transactions relating to post-employment benefits

The Council recognises the cost of retirement benefits in the Comprehensive Income and Expenditure Statement (Cost of Services) when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

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The following transactions have been made in the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement during the year:

2014/15			2015/16		
LGPS £000	Teachers £000	Total £000	LGPS £000	Teachers £000	Total £000
Comprehensive Income and Expenditure Statement					
Cost of Services			Cost of Services		
56,020	-	56,020	66,530	-	66,530
1,447	-	1,447	1,453	-	1,453
(17,545)	-	(17,545)	(6,200)	-	(6,200)
39,922	-	39,922	61,783	-	61,783
Financing and Investment Income and Expenditure			Financing and Investment Income and Expenditure		
35,240	1,566	36,806	31,918	1,026	32,944
75,162	1,566	76,728	93,701	1,026	94,727
Total charged to the Surplus / Deficit on Provision of Services			Total charged to the Surplus / Deficit on Provision of Services		
Re-measurements of the net pensions liability			Re-measurements of the net pensions liability		
(141,403)	-	(141,403)	18,162	-	18,162
255,183	3,069	258,252	(137,999)	(1,144)	(139,143)
17,318	-	17,318	253	-	253
131,098	3,069	134,167	(119,584)	(1,144)	(120,728)
206,260	4,635	210,895	(25,883)	(118)	(26,001)
Total charged to Comprehensive Income and Expenditure Statement			Total charged to Comprehensive Income and Expenditure Statement		
Movement in Reserves Statement			Movement in Reserves Statement		
(75,162)	(1,566)	(76,728)	(93,701)	(1,026)	(94,727)
53,244	3,128	56,372	52,785	3,040	55,825
(21,918)	1,562	(20,356)	(40,916)	2,014	(38,902)

29.3 Pensions assets and liabilities recognised in the Balance Sheet

The amount included within the Balance Sheet arising from the Council's obligation in respect of its defined benefit pension plans is:

2014/15			2015/16		
LGPS £000	Teachers £000	Total £000	LGPS £000	Teachers £000	Total £000
2,679,567	44,268	2,723,835	2,627,336	41,110	2,668,446
(1,707,811)	-	(1,707,811)	(1,734,248)	-	(1,734,248)
971,756	44,268	1,016,024	893,088	41,110	934,198
Net liability arising from defined benefit obligations			Net liability arising from defined benefit obligations		

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total net deficit of the two Schemes of **£934.198m** (2014/15: £1.016bn) has a substantial impact on the net worth of the Council, as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

- The deficit on the Local Government Pension Scheme will be made good by increased contributions over the next twenty years; and
- Finance is only required to be raised to cover teachers' unfunded added years when the pensions are actually paid.

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Scheme Liabilities

The following table provides a reconciliation of the present value of scheme liabilities:

2014/15				2015/16		
LGPS £000	Teachers £000	Total £000		LGPS £000	Teachers £000	Total £000
2,330,568	42,761	2,373,329	Balance as at 1 April	2,679,567	44,268	2,723,835
56,020	-	56,020	Current service cost	66,530	-	66,530
100,847	1,566	102,413	Interest cost	87,300	1,026	88,326
16,567	-	16,567	Contributions by scheme participants	16,836	-	16,836
			Remeasurement (gains)/losses:			
255,183	3,069	258,252	Actuarial (gains) / losses arising from changes in financial assumptions	(137,999)	(1,144)	(139,143)
17,318	-	17,318	Other	253	-	253
1,447	-	1,447	Past service costs	1,453	-	1,453
(76,593)	(3,128)	(79,721)	Benefits paid	(78,957)	(3,040)	(81,997)
(21,790)	-	(21,790)	Liabilities extinguished on settlements	(7,647)	-	(7,647)
2,679,567	44,268	2,723,835	Balance as at 31 March	2,627,336	41,110	2,668,446

Scheme Assets

The following table provides a reconciliation of the fair value of scheme assets:

2014/15				2015/16		
LGPS £000	Teachers £000	Total £000		LGPS £000	Teachers £000	Total £000
1,511,828	-	1,511,828	Balance as at 1 April	1,707,811	-	1,707,811
65,607	-	65,607	Interest income	55,382	-	55,382
			Remeasurement gain/(loss)			
141,403	-	141,403	Return on plan assets (excl. amount incl in net interest expense)	(18,162)	-	(18,162)
53,244	3,128	56,372	Contributions by the Council	52,785	3,040	55,825
16,567	-	16,567	Contributions from employees into the scheme	16,836	-	16,836
(76,593)	(3,128)	(79,721)	Benefits paid	(78,957)	(3,040)	(81,997)
(4,245)	-	(4,245)	Amounts made for settlements	(1,447)	-	(1,447)
1,707,811	-	1,707,811	Balance as at 31 March	1,734,248	-	1,734,248

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Local Government Pension Scheme assets comprised:

31 March 2015			31 March 2016		
£000	%		£000	%	
1,148,863	67.3%	Equities	1,173,759	67.7%	
75,034	4.4%	Gilts	51,130	2.9%	
163,460	9.6%	Other bonds	83,241	4.8%	
185,495	10.9%	Property	206,528	12.0%	
37,442	2.1%	Cash and cash equivalents	56,337	3.2%	
97,517	5.7%	Alternative assets	77,107	4.4%	
-	0.0%	Other managed funds	86,146	5.0%	
1,707,811	100.0%	Total assets	1,734,248	100.0%	

The percentages of the total Fund held in each asset class were as follows:

31 March 2015						31 March 2016				
UK		Overseas		Total		UK		Overseas		Total
Quoted	Unquoted	Quoted	Unquoted			Quoted	Unquoted	Quoted	Unquoted	
15.3%	0.1%	47.1%	4.8%	67.3%	Equities	8.1%	-	54.4%	5.2%	67.7%
4.4%	-	-	-	4.4%	Gilts	2.9%	-	-	-	2.9%
9.6%	-	-	-	9.6%	Other bonds	4.8%	-	-	-	4.8%
4.4%	6.5%	-	-	10.9%	Property	4.5%	7.5%	-	-	12.0%
2.1%	-	-	-	2.1%	Cash and cash equivalents	-	3.2%	-	-	3.2%
-	3.2%	-	2.5%	5.7%	Alternative assets	(1.9%)	1.8%	-	4.5%	4.4%
-	-	-	-	-	Other managed funds	-	5.0%	-	-	5.0%
35.8%	9.8%	47.1%	7.3%	100.0%	Total assets	18.4%	17.5%	54.4%	9.7%	100.0%

29.4 Basis for estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis to estimate the pensions that will be payable in future years. The liabilities have been assessed using the projected unit credit method which is dependent on assumptions about mortality rates, salary levels etc. The Pension Fund liabilities have been assessed by **Barnett Waddingham Public Sector Consulting**, an independent firm of actuaries. The liabilities have been estimated, based upon the latest full valuation of the scheme as at **31st March 2013**.

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The significant assumptions used by the Actuary in its calculations for the Local Government Pension Scheme have been:

Assumptions	2014/15	2015/16
▪ Rate of inflation		
- RPI	3.2%	3.2%
- CPI	2.3%	2.3%
▪ Rate of increase in salaries	4.1%	4.1%
▪ Rate of increase in pensions	2.3%	2.3%
▪ Discount rate	3.3%	3.6%
▪ Mortality assumptions for members retiring in normal health:		
- Life expectancy for future pensioners retiring in 20 years' time at 65:		
▪ Male	25.1 years	25.1 years
▪ Female	27.6 years	27.7 years
- Life expectancy of current pensioners retiring today aged 65:		
▪ Male	22.8 years	22.9 years
▪ Female	25.2 years	25.3 years
▪ Expected rate of return on assets in the scheme	14%	2%

The actuarial assumptions used in the calculations of the year-end balance sheet liabilities for Teachers' additional unfunded pensions are based on the above assumptions with the following exceptions:

Assumptions	2014/15	2015/16
▪ Rate of inflation		
- RPI	2.7%	2.5%
- CPI	1.8%	1.6%
▪ Rate of increase in pensions	1.8%	1.6%
▪ Discount rate	2.4%	2.5%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. Sensitivity analysis has been undertaken, based on reasonably possible changes of the assumptions occurring at the end of the reporting period. This assumes, for each change, that the assumption analysed changes, whilst all the other assumptions remain constant. The assumptions on longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, changes in some of the assumptions may be inter-related. The estimations in the sensitivity analysis have followed the accounting policies for the scheme (i.e.

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on an actuarial basis using the projected unit credit method). The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Local Government Pension Scheme	Effect of change in assumptions		
	£000	£000	£000
Adjustment to discount rate	+ 0.1%	0.0%	- 0.1%
Present value of total obligation	2,583,266	2,627,336	2,672,201
Projected Service Cost	59,965	61,314	62,694
Adjustment to long term salary increase	+ 0.1%	0.0%	- 0.1%
Present value of total obligation	2,630,948	2,627,336	2,623,739
Projected Service Cost	61,343	61,314	61,285
Adjustment to pension increases and deferred revaluation	+ 0.1%	0.0%	- 0.1%
Present value of total obligation	2,669,119	2,627,336	2,586,264
Projected Service Cost	62,681	61,314	59,976
Adjustment to mortality age rating assumption	+ 1 year	None	- 1 year
Present value of total obligation	2,707,895	2,627,336	2,549,248
Projected Service Cost	62,879	61,314	59,788

Unfunded Teachers' Pensions	Effect of change in assumptions		
	£000	£000	£000
Adjustment to discount rate	+ 0.1%	0.0%	- 0.1%
Present value of total obligation	40,738	41,110	41,486
Adjustment to pension increases and deferred revaluation	+ 0.1%	0.0%	- 0.1%
Present value of total obligation	41,489	41,110	40,734
Adjustment to mortality age rating assumption	+ 1 year	None	- 1 year
Present value of total obligation	42,619	41,110	39,654

29.5 Impact on the Authority's Cash Flows

The objectives of the LGPS are to keep employers' contributions at as constant a rate as possible. There are no minimum funding requirements in the LGPS, but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions. Funding levels are monitored on an annual basis. The next triennial valuation is being carried out as at **31 March 2016** and will set the contributions for the period 1 April 2017 to 31 March 2020.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2017 is **£44.777m**. Although there are not expected to be any

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contributions with respect to active members, the total unfunded pensions in respect of teachers are estimated to be **£3.089m** for the year to 31 March 2017.

The weighted average duration of the pension obligation for the Local Government Pension Scheme members is **18** years. For the Teachers awards it is **9** years.

30. Audit costs

The following costs were in relation to the audit of the Statement of Accounts, certification of grant claims and to non-audit services provided by the Council's External Auditor:

2014/15 £000		2015/16 £000
	Audit fees payable to the appointed auditor	
219	External audit services carried out by appointed auditor	164
15	Other services carried out by appointed auditor	15
234		179
	Rebates received in respect of fees paid in previous years	
(52)	Rebates received from the Audit Commission	-
(20)	Rebates received in relation to grant fees	-
(72)		-
162	Net total	179

Notes:

- The reduction in the audit fee for 2015/16 (when compared to the fee for 2014/15) reflects the reduced overheads of Public Sector Audit Appointments Ltd (PSAA). PSAA was incorporated in August 2014 to take on some of the key statutory functions of the Audit Commission with effect from 1 April 2015.
- The fee for 'other services carried out by the appointed auditor' in 2015/16 relates to the certification of the Teachers Pensions grant claim, which is not covered by the PSAA's certification arrangements but external audit certification is nevertheless required by the grant awarding body.
- The rebate received from the Audit Commission in 2014/15 represented the re-distribution of retained earnings to audited bodies in the run up to its closure in March 2015.
- The rebate received in 2014/15 in relation to grant fees related to two claims that were expected to be audited under the Audit Commission's grant certification arrangements, but this did not prove to be necessary.

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31. Members' allowances and expenses

The total of allowances and expenses paid to Members of the Council during the year amounted to:

2014/15 £000		2015/16 £000
	Members allowances	
856	Basic allowances	870
643	Special responsibility allowances	622
<hr/> 1,499		<hr/> 1,492
57	Members expenses	60
<hr/> 1,556		<hr/> 1,552

32. Pooled budgets

32.1 Better Care Fund

The Better Care Fund was established by the Government with the primary aim to 'drive closer integration and improve outcomes for patients and service users and carers'.

The Better Care Fund is comprised of a number of funding streams:

- Disabilities Facilities Grant – capital grant made available to local authorities to award grants for changes to a person's home.
- Social Care Capital Grant – capital funding made available to local authorities to support investment in adult social care services.
- Carers' Break Funding – funding previously included within the CCG's baseline allocations to support long term carers.
- Clinical Commissioning Group (CCG) reablement funding – funding previously included within CCG's baselines to support integrated working with local authorities in order to reduce avoidable hospital admissions and to facilitate more timely hospital discharges.
- Funding transferred by NHS England to support social care.

Whilst the Government required Better Care Funds to be set up as pooled budgets, the operation of these pooled budgets could either involve the members ceding control of funds to a lead commissioner / principal or the arrangement being a joint operation.

The Essex Better Care Fund comprises five pooled funds (i.e. one for each of the five clinical commissioning groups (CCG's) within Essex), each governed by a Section 75 Agreement, with an overarching collaboration agreement signed by the Council and each of the CCG's. These

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Section 75 agreements establish a series of lead commissioning arrangements through which the partners secure the future position of health and social care services across Essex.

These lead commissioning arrangements mean that, for each service included within the Section 75 agreements, either the Council or a CCG is solely responsible for the delivery of the service. Where the Council is the lead commissioner, it includes all of the transactions with service providers in its own accounts, with contributions from the Pooled Budget being brought in as income.

The contributions and expenses of the Pool for 2015/16 were as follows:

	Better Care Fund Pools						Total
	Basildon & Brentwood	Castle Point & Rochford	Mid Essex	North East Essex	West Essex	Central Pool	
	£000	£000	£000	£000	£000	£000	£000
Contributions							
Clinical Commissioning Groups							
Basildon and Brentwood	(22,207)	-	-	-	-	-	(22,207)
Castle Point and Rochford	-	(11,068)	-	-	-	-	(11,068)
Mid Essex	-	-	(21,732)	-	-	-	(21,732)
North East Essex	-	-	-	(20,987)	-	-	(20,987)
West Essex	-	-	-	-	(18,714)	-	(18,714)
	(22,207)	(11,068)	(21,732)	(20,987)	(18,714)	-	(94,708)
Essex County Council	-	-	-	-	-	(5,913)	(5,913)
Total Contributions	(22,207)	(11,068)	(21,732)	(20,987)	(18,714)	(5,913)	(100,621)
Expenditure							
Clinical Commissioning Groups							
Basildon and Brentwood	15,836	-	-	-	-	-	15,836
Castle Point and Rochford	-	6,685	-	-	-	-	6,685
Mid Essex	-	-	12,785	-	-	-	12,785
North East Essex	-	-	-	13,376	-	-	13,376
West Essex	-	-	-	-	11,976	-	11,976
	15,836	6,685	12,785	13,376	11,976	-	60,658
Essex County Council	6,371	4,383	8,947	7,611	6,738	5,913	39,963
Total Expenditure	22,207	11,068	21,732	20,987	18,714	5,913	100,621
Net (surplus) / deficit	-	-	-	-	-	-	-

32.2 Equipment Pool

The Council entered into a pooled budget arrangement with various local authority and NHS partners in 2014/15. The primary purpose of this arrangement is to manage and control the sourcing, delivery, fitting, return and refurbishment of community equipment, adaptations and aids to daily living in service users' homes as part of an integrated community equipment service.

The pooled budget agreement is for a three year period, with the option to extend the arrangement for up to two more years. The agreement in place stipulates that partners will contribute to the 'pool' on the basis of their assumed activity levels. Where a partner has paid more into the pool than has been spent, the partner can either choose to carry their 'surplus'

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forward for use in the next financial year, or to have their 'surplus' repaid. Where there is a shortfall in the contributions made by a partner, they are expected to redress this position.

The contributions and expenses of the Pool for 2015/16 were as follows:

2014/15				2015/16		
Contributions	Expenditure	Net (surplus) / deficit £000		Contributions	Expenditure	Net (surplus) / deficit £000
£000	£000	£000		£000	£000	£000
			Local authorities			
(8,705)	8,705	-	Essex County Council	(7,907)	7,907	-
(515)	495	(20)	Thurrock Council	(443)	441	(2)
			Clinical Commissioning Groups			
(1,864)	1,864	-	North East Essex	(1,753)	1,753	-
(2,368)	2,368	-	Mid Essex	(2,299)	2,299	-
			NHS Trusts			
(798)	763	(35)	Colchester University Hospital Foundation Trust	(737)	737	-
(81)	70	(11)	Mid Essex Hospital Service NHS Trust	(43)	43	-
(215)	201	(14)	South Essex Partnership University NHS Foundation Trust	(209)	209	-
(1,995)	1,928	(67)	North East London Foundation Trust	(1,603)	1,603	-
(16,541)	16,394	(147)	Total	(14,994)	14,992	(2)

33. Officers' remuneration

Officers' remuneration includes all sums paid to or receivable by employees, expense allowances chargeable to tax and the money value of benefits. It should be emphasised that this relates to payments to individuals, so part year employment can produce distortions in the presentation.

Pension payments made, whether from a funded or unfunded scheme, do not count as remuneration for this purpose.

The numbers of officers whose remuneration amounted to £50,000 or more, grouped in rising bands of £5,000, are shown overleaf.

2014/15			Remuneration band			2015/16		
Non-schools	Schools	Total				Non-schools	Schools	Total
135	159	294	£50,000	to	£54,999	167	137	304
83	105	188	£55,000	to	£59,999	82	111	193
68	88	156	£60,000	to	£64,999	71	84	155
32	55	87	£65,000	to	£69,999	31	57	88
32	18	50	£70,000	to	£74,999	40	22	62
20	12	32	£75,000	to	£79,999	21	11	32
16	4	20	£80,000	to	£84,999	22	3	25
16	4	20	£85,000	to	£89,999	14	5	19
7	4	11	£90,000	to	£94,999	15	2	17
6	3	9	£95,000	to	£99,999	7	1	8
7	2	9	£100,000	to	£104,999	4	2	6
4	-	4	£105,000	to	£109,999	5	-	5
6	1	7	£110,000	to	£114,999	4	-	4
3	-	3	£115,000	to	£119,999	5	1	6
2	-	2	£120,000	to	£124,999	1	-	1
2	-	2	£125,000	to	£129,999	4	-	4
2	-	2	£130,000	to	£134,999	2	-	2
1	-	1	£135,000	to	£139,999	-	-	-
-	-	-	£140,000	to	£144,999	-	-	-
-	-	-	£145,000	to	£149,999	2	-	2
-	-	-	£150,000	to	£154,999	1	-	1
442	455	897	Total			498	436	934

Notes:

Senior officers whose individual remuneration is disclosed in note 34 (page 120) are excluded from the remuneration bandings shown in the above analysis.

Statement of Accounts - Notes to the Financial Statements

34. Senior officers' remuneration

Senior officers include all members of the Council's Corporate Management Board and other statutory officers. Remuneration of senior officers was as follows:

	Notes	Remuneration						
		Salaries, fees and allowances	Bonus payments	Expense allowances / benefits	Compensation for loss of employment	Total remuneration Excl pension contributions	Employer's contribution to pension	Total remuneration Incl. pension contributions
		£	£	£	£	£	£	£
2014/15								
Chief Executive - Ms Joanna Killian		205,972	-	1,437	-	207,409	29,089	236,498
Executive Director for People Commissioning Mr David Hill		182,000	7,000	1,293	-	190,293	25,662	215,955
Deputy Chief Executive and Executive Director - Place Commissioning - Mr Robert Overall	(iv)	28,667	-	252	116,663	145,582	8,342	153,924
Executive Director for Place Commissioning Mrs Sonia Davidson-Grant	(v)	48,292	-	-	-	48,292	6,532	54,824
Executive Director for Corporate and Customer Services - Mrs Margaret Lee		157,000	7,500	1,293	-	165,793	22,208	188,001
Executive Director for Strategy, Transformation and Commissioning Support - Mr Keir Lynch		157,000	7,500	1,293	-	165,793	22,208	188,001
Executive Director for People Operations		152,500	5,680	1,293	-	159,473	21,316	180,789
Director for Corporate Law and Assurance	(vi)	121,300	2,426	1,447	-	125,173	17,445	142,618
Director of Public Health Dr Michael Gogarty	(vii)	166,545	1,917	1,195	-	169,657	21,082	190,739

		Remuneration						
		Salaries, fees or allowances	Bonus payments	Expense allowances	Compensation for loss of employment	Total remuneration Excl pension contributions	Employer's contribution to pension	Total remuneration Incl. pension contributions
		£	£	£	£	£	£	£
2015/16								
Chief Executive - Ms Joanna Killian	(viii)	26,385	-	139	-	26,524	3,720	30,244
Chief Executive - Mr Gavin Jones	(ix)	38,500	-	1,709	-	40,209	5,429	45,638
Executive Director - People Commissioning Mr David Hill	(x)	185,500	2,625	1,386	-	189,511	25,374	214,885
Executive Director for Place Commissioning Mrs Sonia Davidson-Grant	(v)	175,300	2,475	1,297	-	179,072	24,079	203,151
Executive Director for Corporate and Customer Services - Mrs Margaret Lee	(x)	160,000	3,750	1,385	-	165,135	21,961	187,096
Executive Director for Strategy, Transformation and Commissioning Support - Mr Keir Lynch	(xi)	122,462	2,250	1,014	-	125,726	16,829	142,555
Executive Director for People Operations Mrs Helen Lincoln		158,980	2,235	1,385	-	162,600	21,744	184,344
Executive Director for Place Operations	(xii)	135,902	4,246	-	-	140,148	-	140,148
Director for Corporate Law and Assurance	(vi)	121,300	2,426	1,850	-	125,576	17,445	143,021
Director of Public Health Dr Michael Gogarty	(vii)	168,477	-	1,699	-	170,176	21,494	191,670

Statement of Accounts - Notes to the Financial Statements

Notes:

- (i) *Where a senior officer's annual salary is £50,000 or more, but less than £150,000, remuneration is disclosed individually by way of job title. For those senior officers whose salary is £150,000 or more, their name is also disclosed.*
- (ii) *The employers' contribution to pensions are not amounts paid to individual members of staff, rather they reflect amounts paid by the Council into the Pension Fund; these contributions have been made at the level determined at the last actuarial valuation as necessary to meet the cost of the future pension accrual.*
- (iii) *Bonus payments have been disclosed in the year of payment, but relate to performance in the preceding financial year.*
- (iv) *The **Deputy Chief Executive and Executive Director – Place Commissioning** left the Council on 1st June 2014.*
- (v) *The **Executive Director – Place Commissioning** was initially appointed on an interim basis, taking up the role substantively with effect from December 2014.*
- (vi) *The Council's **Director of Corporate Law and Assurance** fulfilled the statutory role of Monitoring Officer.*
- (vii) *The Council's **Director of Commissioning – Healthy Lifestyles** fulfils the statutory role of Director of Public Health.*
- (viii) *The **Chief Executive**, Joanna Killian, left the Council on 17th May 2015.*
- (ix) *The new **Chief Executive**, Gavin Jones, joined the Council on 20th January 2016.*
- (x) *The Chief Executive fulfils the role of **Head of Paid Service**, which is a statutory role that needs to be covered. In the period between Joanna Killian's departure and Gavin Jones's arrival, the statutory role of Head of Paid Service was rotated between members of the Corporate Management Board, as follows:*
 - *The **Executive Director for Corporate and Customer Services** (Mrs Margaret Lee) fulfilled the role over the period 1st June 2015 until 31st August 2015; and*
 - *The **Executive Director for People Commissioning** (Mr Dave Hill) fulfilled the role over the period 1st September 2015 until 19th January 2016.*

Neither officer received any additional remuneration whilst acting in the capacity of Head of Paid Service.
- (xi) *The **Executive Director for Strategy, Transformation and Commissioning Support, and Traded Services** left the Council on 6th January 2016 to take up the role of Chief Executive of Essex Cares Ltd, which is a wholly owned subsidiary of the Council.*
- (xii) *The role of **Executive Director for Place Operations** has been filled on an interim basis by the Council's Chief Information Officer since 15th June 2015.*

Statement of Accounts - Notes to the Financial Statements

- (xiii) *The services of several of the Council's Corporate Management Board were secured on an interim basis in 2014/15. The amounts disclosed below in respect of these individuals are the costs incurred by the Council to secure their services on this basis, and not the amounts these individuals actually received (which will have been lower):*
- *Mr Peter Tempest, who split his time between two roles until September 2014, including the role of **Executive Director – Adult Operations**, which he filled jointly with Mr Mike Boyle. Subsequently, Mr Tempest fulfilled the role of **Commissioning and Delivery Director** on a full time basis. The total cost to the Council in 2014/15 was **£175,113**;*
 - *Mr Mike Boyle, who split his time between two roles until September 2014, including the role of **Executive Director – Adult Operations**, which he filled jointly with Mr Peter Tempest. For the remainder of the year, Mr Boyle fulfilled the role of **Commissioning and Delivery Director** on a full time basis. The total cost to the Council in 2014/15 was **£179,434**;*
 - *Mrs Sonia Davidson-Grant, who fulfilled the role of **Executive Director – Place Commissioning** on an interim basis during the period July to December 2014 (before taking up the post on a substantive basis) was employed at a cost to the Council in 2014/15 of **£109,111**.*
- (xiv) *The Council also secured services from various other individuals on an interim basis during 2014/15 and 2015/16. The fee charged to the Council in respect of some of these individuals amounted to £150,000 or more, in 2014/15 and/or 2015/16, as follows:*
- *Mr Peter Tempest, who held the position of **Commissioning and Delivery Director** at a cost to the Council in 2015/16 of **£188,539**;*
 - *Mr Chris Hannan, who held the position of **Interim Programme Director – Adults** at a cost to the Council in 2015/16 of **£175,501** (2014/15: £203,781).*
 - *Mr Marc Cohen, who held the position of **Senior Project Manager** at a cost to the Council in 2015/16 of **£173,452** (2014/15: £107,288);*
 - *Ms Jo Twine, who held the position of **People Commissioning Capital Programme Manager** until August 2015. The cost to the Council was **£106,958** in 2015/16 (2014/15: £214,978).*
 - *Mr Christopher Vaughan, who held the position of **Business Incubator Contractor** over the period March 2014 to August 2015. The cost to the Council was **£80,412** in 2015/16 (2014/15: £179,884).*
 - *Mr Christopher Kiernan, who held the position of **Interim Director for Education and Lifelong Learning** over the period June 2014 to July 2015. The cost to the Council was **£74,623** in 2015/16 (2014/15: £169,530).*

As noted in paragraph (xiii) above, the amounts disclosed in respect of these individuals are the costs incurred by the Council to secure their services on an interim basis, and not the amounts these individuals actually received (which will have been lower).

Statement of Accounts - Notes to the Financial Statements

35. Related parties

The Council is required to disclose material transactions with bodies or individuals that have the potential to control or influence the Council, or to be controlled or influenced by the Council. The intention, in making this disclosure, is to make explicit the extent to which the Council might have been constrained in its ability to operate independently, or might have secured the ability to limit another party's ability to bargain freely with the Council.

Related party	Declaration
UK Government	The UK Government has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, provides a significant proportion of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. Grants received from government departments are detailed in notes 10 and 11.
Elected members	<p>Members of the Council have direct control over the Council's financial and operating policies. The Council's Constitution requires members to declare their pecuniary interests and any other interests that could reasonably be regarded as likely to prejudice their judgement of the public interest in a Register of Interests and at relevant meetings. The Register of Interests is published on the Council's website. In addition, members are asked to declare separately any related party transactions with the Authority. On the basis of these declarations, the following matters require disclosure as related party transactions:</p> <ul style="list-style-type: none"> • Cllr Michael Page is a trustee of the Rural Community Council of Essex (RCCE). The Council provided £807,000 to the charity during 2015/16 (2014/15: £849,000). • Cllr Michael Page is also a member of the Executive Committee of the Essex Association of Local Councils. The Council provided £45,000 to this organisation in 2015/16 (2014/15: £53,000). • Cllr Roger Walters is a non-executive director of Essex Cares Ltd and received an allowance of £6,000 from Essex Cares in respect of this role in 2015/16. Cllr Walters assumed this role with effect from 1 December 2014. Prior to that, the role was fulfilled by Cllr John Spence. Both received an allowance of £6,000 from Essex Cares in 2014/15. Further details of the Council's relationship and transactions with Essex Cares Ltd are provided on page 124. • Cllr Derrick Louis is a non-executive director and vice chair of Provide (formally known as Central Essex Community Services). The Council made payments totalling £19.4m to this organisation during 2015/16 (2014/15: £6.045m). Cllr Louis was Cabinet Member for Corporate Services until 4th January 2016. <p>The total of members' allowances paid is shown in note 31.</p>

Statement of Accounts - Notes to the Financial Statements

Related party	Declaration
Officers	<p>Members of the Council's Corporate Management Board, and other officers with independent statutory powers, can influence significantly the policies of the authority. However, officers are bound by a Code of Conduct which seeks to prevent related parties exerting undue influence over the Authority. In addition, they are required to declare any transactions with the Authority. Only the following matter was declared which requires disclosure as a related party transaction:</p> <ul style="list-style-type: none"> • Mr Keir Lynch, the Executive Director for Strategy, Transformation and Commissioning Support and Traded Services was a non-executive director of Essex Cares Ltd during 2015/16, until <i>6th January 2016</i>. This role was filled by the Council's Director for Traded Development for the majority of 2014/15. Neither officer was remunerated for this role. <p>Mr Lynch left the Council's employ on <i>6th January 2016</i> to take up the role of Chief Executive of Essex Cares Ltd.</p>
Essex Pension Fund	<p>The Council administers the Essex Pension Fund on behalf of its employees and those of the Essex district councils and other admitted bodies.</p> <p>The Council charged £1.214m for administering the Fund during 2015/16, of which £190,000 was outstanding at 31st March 2016 (2014/15: £1.702m, of which £373,000 was outstanding at 31st March 2015).</p>
Essex Fire Authority	<p>The Council's County Solicitor is employed as the Monitoring Officer for the Essex Fire Authority. In addition, the Council provides a pensions' service to the Authority.</p> <p>The total value of these services in 2015/16 was £252,000, none of which was outstanding at 31st March 2016 (2014/15: £156,000, of which £18,000 was outstanding at 31 March 2015).</p>
Essex Cares Ltd	<p>Essex Cares Ltd is a wholly owned subsidiary of the Council. It provides services for people requiring care, support and assistance living in the community. Essex Cares' transactions are consolidated fully within the Council's Group Accounts, which are set out on pages 128 to 139.</p> <p>The Council commissioned services from Essex Cares Ltd to the value of £31.6m in 2015/16 (2014/15: £32.8m).</p> <p>The Council provided financial, internal audit and other support services to Essex Cares Ltd during 2015/16; the value of these services in 2015/16 was £302,000 (2014/15: £321,000). In addition, the Council's Director for Traded Development provided support to Essex Cares Ltd during 2014/15 in respect of the Company's change programme, at a cost to Essex Cares of £40,000.</p> <p>The Council also provided cash management support to Essex Cares Ltd. The Council paid interest of £5,000 (net) on the amounts it borrowed from Essex Cares Ltd; £710 of this total was outstanding at 31st March 2016 (2014/15: paid interest of £7,000 (net) on amounts it borrowed, £1,000 of which was outstanding at 31st March 2015; no amounts outstanding at 31st March 2014).</p>

Statement of Accounts - Notes to the Financial Statements

Related party	Declaration
	As noted on page 123, a County Councillor and a senior officer of the Council held positions on Essex Cares' Board of Directors during 2015/16.
Rochford District Council	The Council has provided Section 151 Officer and Internal Audit support to Rochford Council during 2015/16, at a cost of £30,000 , none of which was outstanding at 31 st March 2016.
South East Local Enterprise Partnership	<p>The South East Local Enterprise Partnership (South East LEP) is a business-led, public / private body established to drive economic growth across East Sussex, Essex, Kent, Medway, Southend and Thurrock. It has a range of members <i>(including representatives from businesses, local authorities and higher / further education)</i>.</p> <p>The South East LEP is an informal partnership, which means that one of its local authority partners must act as the 'accountable body'; Essex County Council is currently the 'accountable body' for the partnership. As the 'accountable body', the Council is responsible for the proper administration and financial probity of the public funds received by the Partnership.</p> <p>The South East LEP has secured £488.2m from the Government's Local Growth Fund to support economic growth in the area, with £70.950m of the new funding being allocated in 2015/16. £28.8m of this funding was allocated to the Council to fund major transport schemes. This funding was allocated to the Council by the South East LEP following a competitive bidding process.</p>

36. Accounting for schools

As noted in accounting policy note **1.17** (*which commences on page 46*), all locally maintained schools are deemed to be entities controlled by the Council, which means their transactions, unspent resources and current assets and liabilities are consolidated into the Council's single entity accounts.

With regard to Property, Plant and Equipment, the Council only recognises the assets of its Community and Foundation Schools (other than those owned by religious bodies), and the playing fields for all categories of local maintained schools, in its Balance Sheet. It does not recognise the school building assets of the other categories of local maintained school, as there is no evidence that the rights of ownership for these buildings have been assigned either to the school governing bodies or to the Council, and it is therefore assumed that the Trustees have retained their substantive rights to take back the school property without causal action by the schools. However, the Trustees are, by Regulation, required to give a minimum of two years' notice of their intention to terminate a school's occupancy of a site, to allow the Council and/or school governing body time to make alternative arrangements for the pupils.

Statement of Accounts - Notes to the Financial Statements

The number of locally maintained schools deemed to be controlled by the Council is as follows:

2014/15						2015/16				
Nursery schools	Primary Schools	Secondary schools	Special schools	Total		Nursery schools	Primary Schools	Secondary schools	Special schools	Total
1	193	2	13	209	Community schools	1	183	1	13	198
-	40	2	2	44	Foundation schools	-	36	2	2	40
-	5	-	-	5	Foundation schools (C of E)	-	5	-	-	5
-	60	1	-	61	Voluntary controlled schools	-	59	1	-	60
-	57	3	-	60	Voluntary aided schools	-	57	3	-	60
1	355	8	15	379	Total	1	340	7	15	363

The financial relationship between the Council and the schools it maintains is set out in a 'Scheme for Financing Schools'. The Scheme is produced in line with statutory requirements and is subject to approval by members of the local Schools' Forum representing maintained schools. It deals with financial management issues, and sets out the approach to, and existence of, surplus and deficit balances in schools.

The Scheme allows schools to carry forward from one financial year to the next any shortfall in expenditure relative to the school's budget share for the year plus/minus any balance brought forward from the previous year. The scheme also contains a provision which has the effect of carrying forward deficit balances, but providing for deficits to be deducted from the following year's budget share. The scheme makes it clear that the Council cannot write off the deficit balance of any school. The Council can only give assistance towards elimination of a deficit balance from the Council's own schools budget (budget held centrally) where this has been agreed by the Schools Forum.

Note **12** on the Dedicated Schools Grant (see page 70) shows the total of the Individual Schools budget, which is divided into a budget share for each maintained school.

The reduction in the number of locally maintained schools between 2014/15 and 2015/16 shown in the above table results from schools converting to academy status during the year and from the merger of several infant and junior schools into primary schools.

Academy schools are publically funded independent schools that are held accountable through a legally binding 'funding agreement' with the Government. This means that they cease to be local maintained schools upon conversion. A school wishing to convert to academy status has to apply to the Department for Education, following consultation with such persons as the school thinks appropriate. The conversion process usually involves at least five elements:

- The setting up of an academy trust;
- Putting in place a funding agreement between the academy trust and the Secretary of State for the running and funding of the academy school;
- Transferring the employment of the staff of the school from the local authority or governing body (as applicable) to the academy trust;

Statement of Accounts - Notes to the Financial Statements

- Negotiating the transfer of assets and contracts of the school from the local authority and/or governing body to the academy trust; and
- Arranging for the academy trust to have use of the land and buildings of the school(s), usually by way of a 125 year lease with the local authority or the transfer of the freehold of the land, as applicable.

To the extent that the land and buildings of a school converting to academy status are either leased by, or transferred from, the Council, or school governing body, the Property, Plant and Equipment is removed from the Council's Balance Sheet, and a loss on disposal is reported in the Comprehensive Income and Expenditure Statement (as a component of 'Other Operating Expenditure').

37. Events after the Balance Sheet Date

The Statement of Accounts was certified by the Executive Director for Corporate and Customer Services on **21st September 2016**. Events taking place after this date were not reflected in the financial statements or notes.

Statement of Accounts - Group Accounts

Introduction

In order to provide a full picture of the Council's economic activities and financial position, the accounting statements of the Council and Essex Cares Ltd have been consolidated. The Group Accounts are presented in addition to the Council's 'single entity' financial statements and comprise:

- Group Movement in Reserves Statement;
- Group Comprehensive Income and Expenditure Statement;
- Group Balance Sheet; and
- Group Cash Flow Statement.

These statements (*the purposes of which are explained on page 28*), together with those explanatory notes that are considered necessary in addition to those accompanying the Council's 'single entity' accounts, and accounting policies, are set out in the following pages, as detailed below.

	Page
Group Movement in Reserves Statement	129
Group Comprehensive Income and Expenditure Statement	130
Group Balance Sheet	131
Group Cash Flow Statement	132
Notes to the Group Accounts	133

Group Movement in Reserves Statement

For the years ended 31 March 2015 and 31 March 2016

	Usable Reserves						Total Unusable Reserves	Total Reserves	Analysis of Reserves	
	Earmarked General Reserves	General Fund Balance	Authority share of Profit and Loss Reserve of Subsidiary	Authority share of Pension Reserve of Subsidiary	Usable Capital Receipts Reserve	Capital Grants Unapplied Account			Total Authority Reserves	Authority Share of Reserves of Subsidiary
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2014	(317,808)	(57,363)	(3,990)	(5,586)	(21,276)	(15,569)	(421,592)	(964,636)	(1,386,228)	(1,376,652)
Movement in Reserves during 2014/15										
Deficit on Provision of Services	-	192,514	768	-	-	-	193,282	-	193,282	768
Other Comprehensive Expenditure & Income	-	-	-	3,232	-	-	3,232	(11,537)	(8,305)	3,232
Total Comprehensive Expenditure and Income	-	192,514	768	3,232	-	-	196,514	(11,537)	184,977	4,000
Adjustments between accounting basis & funding under regulations	-	(187,892)	(596)	596	21,276	12,841	(153,775)	153,775	-	-
Net (increase)/decrease before transfers to earmarked reserves	-	4,622	172	3,828	21,276	12,841	42,739	142,238	184,977	4,000
Transfers from Earmarked Reserves	6,359	(6,359)	-	-	-	-	-	-	-	-
(Increase) / decrease in 2014/15	6,359	(1,737)	172	3,828	21,276	12,841	42,739	142,238	184,977	4,000
Balance at 31 March 2015	(311,449)	(59,100)	(3,818)	(1,758)	-	(2,728)	(378,853)	(822,398)	(1,201,251)	(1,195,675)
Movement in Reserves during 2015/16										
Deficit on Provision of Services	-	78,167	3,411	-	-	-	81,578	-	81,578	3,411
Other Comprehensive Expenditure & Income	-	-	-	410	-	-	410	(175,973)	(175,563)	410
Total Comprehensive Expenditure and Income	-	78,167	3,411	410	-	-	81,988	(175,973)	(93,985)	3,821
Adjustments between accounting basis & funding under regulations	-	(72,791)	(688)	688	-	(63)	(72,854)	72,854	-	-
Net (increase)/decrease before transfers to earmarked reserves	-	5,376	2,723	1,098	-	(63)	9,134	(103,119)	(93,985)	3,821
Transfers from Earmarked Reserves	26,007	(26,007)	-	-	-	-	-	-	-	-
(Increase) / decrease in 2015/16	26,007	(20,631)	2,723	1,098	-	(63)	9,134	(103,119)	(93,985)	3,821
Balance at 31 March 2016	(285,442)	(79,731)	(1,095)	(660)	-	(2,791)	(369,719)	(925,517)	(1,295,236)	(1,293,481)

Note: The prior year comparative figures have been restated – see Note 3 to the Group Accounts (which commences on page 133) for details.

Group Comprehensive Income and Expenditure Statement

For the year ended 31st March 2016

2014/15 (restated)					2015/16			
Gross expenditure	Income	Government grants	Net Expenditure		Gross expenditure	Income	Government grants	Net expenditure
£000	£000	£000	£000		£000	£000	£000	£000
553,749	(83,609)	(35,946)	434,194	Adult Social Care	562,355	(122,747)	(3,137)	436,471
950,133	(56,350)	(654,568)	239,215	Children's and Education services	964,177	(75,099)	(615,925)	273,153
37,587	(3,739)	(317)	33,531	Cultural and Related services	32,481	(5,242)	(382)	26,857
87,300	(2,509)	(2,945)	81,846	Environmental and Regulatory Services	87,636	(2,321)	(119)	85,196
157,756	(18,308)	(3,641)	135,807	Highways and Transport Services	146,875	(19,300)	(2,494)	125,081
1,880	(667)	(41)	1,172	Housing services	2,400	(601)	-	1,799
15,757	(1,660)	(1,271)	12,826	Planning services	18,605	(1,255)	(609)	16,741
49,786	(4)	(57,670)	(7,888)	Public Health Services	65,231	(236)	(57,693)	7,302
				Central Services				
8,966	(4,145)	-	4,821	Central services to the public	7,361	(4,271)	-	3,090
29,836	(1,145)	(1,086)	27,605	Corporate and democratic core	30,790	(856)	(3,883)	26,051
(15,058)	55	(60)	(15,063)	Non distributed costs	(2,098)	88	(79)	(2,089)
1,877,692	(172,081)	(757,545)	948,066	Cost of services - continuing operations	1,915,813	(231,840)	(684,321)	999,652
205,376	-	-	205,376	Other Operating Expenditure	100,046	-	-	100,046
133,256	(72,475)	-	60,781	Financing and Investment Income and Expenditure	122,168	(61,738)	-	60,430
-	(579,525)	(441,416)	(1,020,941)	Taxation and non specific grant income	-	(592,686)	(485,826)	(1,078,512)
2,216,324	(824,081)	(1,198,961)	193,282	Deficit on Provision of Services	2,138,027	(886,264)	(1,170,147)	81,616
			-	Tax expenses of subsidiary				(38)
			193,282	Group deficit				81,578
			(146,455)	Surplus arising on revaluation of non-current assets				(55,059)
			1,080	Impairment losses on non-current assets charged to Revaluation Reserve				-
			(329)	Surplus arising on revaluation of available for sale financial assets				(186)
			137,399	Re-measurements of the net defined benefits pension liability				(120,318)
			(8,305)	Other Comprehensive Income and Expenditure				(175,563)
			184,977	Total Comprehensive Income and Expenditure				(93,985)

Note: The prior year comparative figures have been restated – see Note 3 to the Group Accounts (which commences on page 133) for details.

Statement of Accounts - Group Accounts

Group Balance Sheet as at 31st March 2016

1 April 2014	31 March 2015	Note		31 March 2016	
£000	Restated £000			£000	£000
			Property, Plant and Equipment		
			Operational assets		
1,712,330	1,670,266		Land and buildings	1,632,682	
74,038	24,505		Vehicles, plant and equipment	19,077	
772,530	822,963		Infrastructure	900,850	
2,635	2,272		Community assets	2,607	
			Non operational assets		
61,746	92,621		Assets under construction	94,169	
16,056	33,400		Surplus assets held pending disposal	35,587	
			Total Property, Plant and Equipment	2,684,972	
2,639,335	2,646,027		Heritage assets	14,363	
14,067	14,368		Investment property	6,723	
6,577	6,674		Intangible assets	154	
879	319		Long term investments	4,960	
7,432	4,772		Long term debtors	16,408	
17,768	16,807				2,727,580
2,686,058	2,688,967		Long term assets		
			Short term investments	155,352	
146,317	122,277		Inventory	1,934	
1,361	1,272	4	Short term debtors	124,259	
118,247	130,775		Cash and cash equivalents	58,894	
155,396	136,959		Assets held for sale	16,835	
4,431	9,188		Investment Properties held for sale	373	
-	-				357,647
425,752	400,471		Current assets		
			Short-term borrowing	(7,963)	
(25,338)	(21,774)	4	Creditors	(219,785)	
(222,663)	(230,824)		Revenue grant receipts in advance	(12,571)	
(24,187)	(15,902)		Capital grant receipts in advance	(53,868)	
(46,930)	(52,285)		Provisions (current)	(17,553)	
(10,572)	(15,519)		Finance lease obligations - short term	(5,779)	
(4,872)	(7,105)				(317,519)
(334,562)	(343,409)		Current liabilities		
			Long term creditors	(54)	
(30)	(34)		Provisions (non-current)	(24,297)	
(24,403)	(22,476)		Long term borrowing	(351,620)	
(335,081)	(338,751)		Other long term liabilities		
			Finance lease obligations - long term	(149,139)	
(160,033)	(154,459)		Deferred credits	(13,824)	
(15,558)	(14,792)	5	Net Pensions liability	(933,538)	
(855,915)	(1,014,266)				(1,472,472)
(1,391,020)	(1,544,778)		Long term liabilities		
					1,295,236
1,386,228	1,201,251		Net Assets		
			Usable reserves		
			Earmarked reserves	(285,442)	
(317,808)	(311,449)		General Fund Balance	(79,731)	
(57,363)	(59,100)		Profit and Loss reserve	(1,095)	
(3,990)	(3,818)	5	Pension reserve	(660)	
(5,586)	(1,758)		Usable capital receipts reserve	-	
(21,276)	-		Capital grants unapplied	(2,791)	
(15,569)	(2,728)				(369,719)
(421,592)	(378,853)		Unusable reserves		
			Revaluation reserve	(514,628)	
(392,474)	(492,334)		Capital Adjustments Account	(1,343,174)	
(1,439,616)	(1,345,175)		Financial Instruments Adjustment Account	3,141	
3,221	3,181		Available for Sale Financial Instruments Reserve	(777)	
(262)	(591)	5	Pension reserve	934,198	
861,501	1,016,024		Collection Fund Adjustment Account	(14,944)	
(11,987)	(15,671)		Accumulating Compensated Absences Adjustment Account	10,667	
14,981	12,168				(925,517)
(964,636)	(822,398)		Total Reserves		(1,295,236)
(1,386,228)	(1,201,251)				

Note: The prior year comparative figures have been restated – see Note 3 to the Group Accounts (which commences on page 133) for details.

Statement of Accounts - Group Accounts

Group Cash Flow Statement

For the year ended 31 March 2016

2014/15 £000	Notes		2015/16 £000
(37,857)	6	Operating activities	(32,131)
50,829	↓	Investing activities	102,246
5,465	↓	Financing activities	7,950
18,437		Net decrease in cash and cash equivalents	78,065
155,396		Cash and cash equivalents at 1st April	136,959
136,959		Cash and cash equivalents at 31st March	58,894

Statement of Accounts - Group Accounts

Notes to the Group Accounts

1. Group boundary

The Council has an interest in a number of entities, the most significant of which is Essex Cares Ltd.

Essex Cares Ltd commenced trading in July 2009 and was established by the Council in order to provide services for people living in the Community who require care, support and assistance. Essex Cares Ltd is a company limited by shares. Essex County Council owns 100% of the ordinary shares of the Essex Cares Ltd group, which are vested with the Council as a corporate shareholder. Essex Cares Ltd is a subsidiary of the Council for accounting purposes, and its results have been consolidated into the Group Accounts on a line by line basis using the acquisition accounting basis of consolidation.

None of the other Local Authority Trading Companies in which the Council has an interest are considered material enough, either when considered individually or in aggregate, to merit consolidation into the Council's Group Accounts.

2. Accounting policies

In preparing the Group Accounts the Council has aligned the accounting policies of the company with those of the Council and made consolidation adjustments where necessary; has consolidated the financial statements of the company with those of the Council on a line by line basis; and has eliminated in full balances, transactions, income and expenses between the Council and its subsidiary.

3. Prior Period Adjustment

The Council has restated comparative amounts for the prior period in its 'single entity' accounts, as detailed in Note 4 (see page 55). The impacts of these changes on the Group Comprehensive Income and Expenditure Statement, Movement in Reserves Statement and Balance Sheet for 2014/15 are shown below. The changes had no impact on the 1st April 2014 Group Balance Sheet Group or on the Group Cash Flow Statement for 2014/15.

Statement of Accounts - Group Accounts

3.1 Restatement of the 2014/15 Group Comprehensive Income and Expenditure Statement

	2014/15 Statement of Accounts £000	Reinstate Schools PPE disposed of in error £000	2014/15 Restated £000
Cost of services	948,066	-	948,066
Other Operating Expenditure	220,427	(15,051)	205,376
Financing and Investment Income and Expenditure	60,781	-	60,781
Taxation and Non-Specific Grant Income	(1,020,941)	-	(1,020,941)
Deficit on Provision of Services	208,333	(15,051)	193,282
Tax expenses of subsidiary	-	-	-
Group deficit	208,333	(15,051)	193,282
Surplus arising on revaluation of non-current assets	(146,455)	-	(146,455)
Impairment losses on non-current assets charged to Revaluation Reserve	1,080	-	1,080
Surplus arising on revaluation of available for sale financial assets	(329)	-	(329)
Re-measurements of the net pension liability	137,399	-	137,399
Other Comprehensive Income and Expenditure	(8,305)	-	(8,305)
Total Comprehensive Income and Expenditure	200,028	(15,051)	184,977

3.2 Restatement of the 2014/15 Group Movement in Reserves Statement

	2014/15 Statement of Accounts £000	Reinstate Schools PPE disposed of in error £000	2014/15 Restated £000
Balance at 31 March 2014	(1,386,228)	-	(1,386,228)
Movement in Reserves during 2014/15			
Deficit on Provision of Services	208,333	(15,051)	193,282
Other Comprehensive Income and Expenditure	(8,305)	-	(8,305)
Total Comprehensive Income and Expenditure	200,028	(15,051)	184,977
Adjustments between accounting basis and funding under regulations	-	-	-
Net increase / decrease before transfers to earmarked reserves	200,028	(15,051)	184,977
Transfers to Earmarked Reserves	-	-	-
Increase in 2014/15	200,028	(15,051)	184,977
Balance at 31 March 2015	(1,186,200)	(15,051)	(1,201,251)

Statement of Accounts - Group Accounts

3.3 Restatement of the 2014/15 Group Balance Sheet

	31 March 2015 Per 2014/15 Statement of Accounts	Reinstate Schools PPE disposed of in error	31 March 2015 Restated
	£000	£000	£000
Property, Plant and Equipment			
Operational assets			
Land and buildings	1,655,215	15,051	1,670,266
Vehicles, plant and equipment	24,505	-	24,505
Infrastructure	822,963	-	822,963
Community assets	2,272	-	2,272
Non operational assets			
Assets under construction	92,621	-	92,621
Surplus assets held pending disposal	33,400	-	33,400
Total Property, Plant and Equipment	2,630,976	15,051	2,646,027
Other long term assets	42,940	-	42,940
Current Assets	400,471	-	400,471
Current liabilities	(343,409)	-	(343,409)
Long term liabilities	(1,544,778)	-	(1,544,778)
Net Assets	1,186,200	15,051	1,201,251
Usable reserves	(378,853)	-	(378,853)
Unusable reserves			
Revaluation reserve	(492,334)	-	(492,334)
Capital Adjustments Account	(1,330,124)	(15,051)	(1,345,175)
Other unusable reserves	1,015,111	-	1,015,111
Total Equity	(1,186,200)	(15,051)	(1,201,251)

4. Debtors and creditors

The debtors and creditors included within the Group Accounts exclude any amounts owed within the 'Group'.

5. Defined Benefit Pension Schemes

Note 29 of the Council's single entity accounts provides an explanation of the Council's participation in the Local Government Pension Scheme. Essex Cares Ltd also participates in this scheme as an admitted body. The following paragraphs explain the Group transactions relating to retirement benefits, the Group assets and liabilities within the Local Government Pension Scheme and the basis for estimating those assets and liabilities and the change in the Group Pension Reserve.

Statement of Accounts - Group Accounts

The following transactions have been made in the Group Comprehensive Income and Expenditure Statement during 2015/16 in relation to participation in the Local Government Pension Scheme:

2014/15			2015/16		
Council £000	Subsidiary £000	Group £000	Council £000	Subsidiary £000	Group £000
Comprehensive Income and Expenditure Statement					
Cost of Services					
56,020	1,670	57,690	66,530	1,854	68,384
1,447	-	1,447	1,453	-	1,453
(17,545)	-	(17,545)	(6,200)	-	(6,200)
39,922	1,670	41,592	61,783	1,854	63,637
Financing and Investment Income and Expenditure					
35,240	(208)	35,032	31,918	(49)	31,869
35,240	(208)	35,032	31,918	(49)	31,869
75,162	1,462	76,624	93,701	1,805	95,506
Total charge to the Surplus / Deficit on Provision of Services					
Re-measurement of the net pensions liability					
(141,403)	(4,631)	(146,034)	18,162	671	18,833
255,183	8,134	263,317	(137,999)	(3,321)	(141,320)
17,318	-	17,318	253	-	253
-	(271)	(271)	-	-	-
-	-	-	-	3,060	3,060
131,098	3,232	134,330	(119,584)	410	(119,174)
206,260	4,694	210,954	(25,883)	2,215	(23,668)
Total charged to the Comprehensive Income and Expenditure Statement					
Movement on the Authority's General Fund Balance					
(75,162)	(1,462)	(76,624)	(93,701)	(1,805)	(95,506)
53,244	866	54,110	52,785	1,117	53,902
(21,918)	(596)	(22,514)	(40,916)	(688)	(41,604)

The amount included within the Group Balance Sheet in respect of its Local Government Pension Scheme defined benefit plan is:

2014/15			2015/16		
Council £000	Subsidiary £000	Total £000	Council £000	Subsidiary £000	Total £000
2,679,567	55,622	2,735,189	2,627,336	54,711	2,682,047
(1,707,811)	(57,380)	(1,765,191)	(1,734,248)	(58,431)	(1,792,679)
971,756	(1,758)	969,998	893,088	(3,720)	889,368
-	-	-	-	3,060	3,060
971,756	(1,758)	969,998	893,088	(660)	892,428

Statement of Accounts - Group Accounts

The following table provides a reconciliation of the present value of scheme liabilities:

2014/15				2015/16		
Council £000	Subsidiary £000	Group £000		Council £000	Subsidiary £000	Group £000
2,330,568	44,233	2,374,801	Balance as at 1 April	2,679,567	55,622	2,735,189
56,020	1,670	57,690	Current service cost	66,530	1,662	68,192
100,847	2,020	102,867	Interest Cost	87,300	1,869	89,169
16,567	520	17,087	Contributions by scheme participants	16,836	408	17,244
			Actuarial (gains) / losses			
			Actuarial (gains) / losses arising from changes in financial assumptions	(137,999)	(3,321)	(141,320)
255,183	8,134	263,317	Other	253	-	253
17,318	-	17,318	Past service costs	1,453	271	1,724
1,447	-	1,447	Benefits paid	(78,957)	(1,530)	(80,487)
(76,593)	(955)	(77,548)	Liabilities extinguished on settlements	(7,647)	(270)	(7,917)
(21,790)	-	(21,790)				
2,679,567	55,622	2,735,189	Balance as at 31 March	2,627,336	54,711	2,682,047

The following table provides a reconciliation of the fair value of scheme assets:

2014/15				2015/16		
Council £000	Subsidiary £000	Group £000		Council £000	Subsidiary £000	Group £000
1,511,828	49,819	1,561,647	Balance as at 1 April	1,707,811	57,380	1,765,191
65,607	2,228	67,835	Interest income	55,382	1,918	57,300
			Remeasurement gain / (loss)			
141,403	4,631	146,034	Return on plan assets (excl. amount incl in net interest expense)	(18,162)	(671)	(18,833)
-	271	271	Other	-	-	-
53,244	866	54,110	Contributions by Employer	52,785	1,117	53,902
16,567	520	17,087	Contributions by scheme participants	16,836	408	17,244
(76,593)	(955)	(77,548)	Benefits paid	(78,957)	(1,530)	(80,487)
(4,245)	-	(4,245)	Settlements	(1,447)	(191)	(1,638)
1,707,811	57,380	1,765,191	Balance as at 31 March	1,734,248	58,431	1,792,679

Statement of Accounts - Group Accounts

The Local Government Pension Scheme assets comprised:

31 March 2015			31 March 2016		
£000	%		£000	%	
1,187,459	67.3%	Equities	1,213,305	68.0%	
77,555	4.4%	Gilts	52,853	3.0%	
168,953	9.6%	Other bonds	86,045	5.0%	
191,730	10.8%	Property	213,487	12.0%	
38,701	2.2%	Cash and cash equivalents	58,235	3.0%	
100,793	5.7%	Alternative Assets	79,705	4.0%	
-	0.0%	Other managed funds	89,049	5.0%	
1,765,191	100.0%	Total assets	1,792,679	100.0%	

Paragraph 29.4 of the Council's 'single entity' accounts, which commences on page 112, set out the significant assumptions used by the Actuary in its calculations for the Local Government Pension Scheme. The sensitivity analyses below have been determined based on reasonably possible changes of assumptions occurring at the end of the reporting period. It assumes for each change that the assumption analysed changes, while all other assumptions remain constant.

Local Government Pension Scheme	Effect of change in assumptions		
	£000	£000	£000
Adjustment to discount rate	+ 0.1%	0.0%	- 0.1%
Present value of total obligation	2,636,904	2,682,047	2,728,007
Projected Service Cost	60,700	62,063	63,457
Adjustment to long term salary increase	+ 0.1%	0.0%	- 0.1%
Present value of total obligation	2,685,768	2,682,047	2,678,341
Projected Service Cost	62,087	62,063	62,029
Adjustment to pension increases and deferred revaluation	+ 0.1%	0.0%	- 0.1%
Present value of total obligation	2,724,832	2,682,047	2,639,994
Projected Service Cost	63,444	62,063	60,711
Adjustment to mortality age rating assumption	+ 1 year	None	- 1 year
Present value of total obligation	2,764,192	2,682,047	2,602,417
Projected Service Cost	63,646	62,063	60,519

Statement of Accounts - Group Accounts

6. Cash Flow

The cash flows for operating, investing and financing activities include the following items:

2014/15		2015/16	
£000		£000	£000
Cash flows from operating activities			
Cash inflows			
(575,841)	Taxation	(593,413)	
(1,095,012)	Grants	(1,014,316)	
(200,054)	Sales of goods and rendering of services	(279,678)	
(3,138)	Interest received	(2,783)	
(1,874,045)			(1,890,190)
Cash outflows			
562,753	Cash paid to and on behalf of employees	529,949	
33,057	Interest paid	35,385	
1,116,948	Cash paid to suppliers of goods and services	1,172,509	
123,430	Other payments for operating activities	120,216	
1,836,188			1,858,059
(37,857)	Net inflow of cash from operating activities		(32,131)
Cash flows from investing activities			
Cash inflows			
(9,161)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(12,640)	
(27,000)	Proceeds from short and long term investments	-	
(102,647)	Other receipts from investing activities	(140,846)	
(138,808)			(153,486)
Cash outflows			
161,276	Purchase of property, plant and equipment, investment property and intangible assets	180,615	
-	Purchase of short and long term investments	33,000	
28,361	Other payments for investing activities	42,117	
189,637			255,732
50,829	Net outflow of cash from investing activities		102,246
Cash flows generated from financing activities			
Cash inflows			
(4,120)	Cash receipts of short and long term borrowing	-	
(114)	Other receipts from financing activities	(114)	
(4,234)			(114)
Cash outflows			
5,685	Cash payments for the reduction of liabilities related to Finance Leases (incl. PFI contracts)	7,122	
4,014	Repayment of short and long term borrowing	942	
9,699			8,064
5,465	Net outflow of cash from financing activities		7,950
18,437	Net decrease in cash and cash equivalents		78,065

Statement of Accounts - Pension Fund Accounts

Introduction

The Pension Fund accounts, and accompanying notes, summarise the financial transactions and net assets related to the provision of pensions and other benefits payable to former employees of the Council, Essex district, borough and unitary councils, and for other scheduled and admitted bodies. The Pension Fund accounts are set out in the following pages, as detailed below.

	Page
Fund Account	141
Net Assets Statement	142
Notes to the Pension Fund Accounts	143

Statement of Accounts - Pension Fund Accounts

Pension Fund Accounts

Fund Account for the year ended 31 March 2016

2014/15	Note		2015/16	
£000			£000	£000
		Dealing with members and others directly involved in the Fund		
		Income		
		Contributions receivable		
(52,676)	8	Member contributions	(53,964)	
(188,654)	8	Employers' contributions	(168,443)	
(8,181)	8	Transfers in from other Pension Funds	(7,936)	
(149)		Other income	(295)	
(249,660)		Total income		(230,638)
		Expenditure		
		Benefits payable		
170,900	8	Pensions	177,467	
31,876		Commutation of pensions & lump sum retirement benefits	31,935	
4,440		Lump sum death benefits	6,344	
		Payments to and on account of Leavers		
183		Refunds of contributions	544	
91		State scheme premiums	321	
64,563	8	Transfers out to other schemes	5,288	
28,779	10	Management expenses	31,816	
300,832		Total expenditure		253,715
51,172		Net additions from dealings with members		23,077
		Returns on investments		
(75,727)	9	Investment income	(87,752)	
(573,424)	11	Profit and losses on disposal of investments and changes in market value of investments	(43,640)	
2,730	14	Taxes on income	3,834	
(646,421)		Net returns on investments		(127,558)
(595,249)		Net (increase)/decrease in the assets available for benefits during the year		(104,481)
(4,337,374)		Net assets as at 1 April		(4,932,623)
(4,932,623)		Net assets as at 31 March		(5,037,104)

Statement of Accounts - Pension Fund Accounts

Pension Fund Accounts

Net Assets Statement as at 31 March 2016

31 March 2015 £000	Note		31 March 2016 £000	£000
	11	Investments at market value		
		Investment assets		
232,568		Fixed interest securities	235,486	
3,065,508		Equities	3,124,105	
216,532		Index linked securities	144,369	
322,135		Property	358,780	
217,452		Property unit trusts	215,089	
237,979		Private Equity	247,281	
158,975		Infrastructure	162,085	
49,057		Timber	77,675	
63,329		Illiquid Debt	76,705	
253,665		Other managed funds	248,358	
22,902		Derivative contracts	17,300	
109,810		Cash/deposits	116,692	
6,434		Other investment balances	7,632	
4,956,346				5,031,557
		Investment liabilities		
(48,206)		Derivative contracts	(35,744)	
(1,987)		Other investment balances	(353)	
(50,193)				(36,097)
4,906,153		Total Investments		4,995,460
		Long term assets		
6,456		Contributions due from employers		5,196
	13	Current assets and liabilities		
		Current Assets		
13,967		Cash		26,311
16,144		Contributions due from employers and other current assets		17,669
4,942,720				5,044,636
		Current liabilities		
(10,097)		Unpaid benefits and other current liabilities		(7,532)
4,932,623		Net assets of the scheme available to fund benefits		5,037,104

Statement of Accounts - Pension Fund Accounts

Notes to the Pension Fund Accounts

1. Background

1.1 General description of the Fund

Under the Local Government Pension Scheme (LGPS) (Administration) Regulations 2008, Essex County Council is required to maintain a pension fund ("the Fund").

The Essex Pension Fund is part of the Local Government Pension Scheme and is administered by Essex County Council ("the Administering Authority") which is the reporting entity for this pension fund.

Established by the Local Government Superannuation Regulation 1974 the scheme is governed by the Public Service Pensions Act 2013, the Fund is administered in accordance with the following secondary legislation:

- Local Government Pension Scheme(LGPS) Regulations 2013 (as amended);
- LGPS (Transitional Provisions, Savings and Amendment) Regulation 2014 (as amended); and
- LGPS (Management and Investment of Funds) Regulations 2009.

The Fund is a contributory defined benefit pension scheme administered by Essex County Council to provide pensions and other benefits for its employees and those other scheduled Bodies within its area. It is also empowered to admit the employees of certain other bodies, town and parish councils, educational establishments, contractors providing services transferred from scheduled bodies and community interest bodies. A complete list of the employers participating in the Fund is contained in the Pension Fund Annual Report and Accounts. The Fund does not provide pensions for teachers, for whom separate arrangements exist. Uniformed police and fire staff are also subject to separate pension arrangements.

The Council has delegated its pension functions to the Essex Pension Fund Strategy Board and Investment Steering Committee (ISC). Responsibility for the administration and financial management of the Fund has been delegated to the Executive Director for Corporate and Customer Services along with the Director for Essex Pension Fund.

Independent investment managers have been appointed to manage the investments of the Fund. The Fund also invests in private equity, infrastructure and timber through the use of limited partnerships. The ISC oversees the management of these investments and meets regularly with the investment managers to monitor their performance against agreed benchmarks. The ISC in turn reports to the Essex Pension Fund Board. The Fund's Statement of Investment Principles is contained in the Pension Fund Annual Report and Accounts and can be found on the Pension Fund website (www.essexpensionfund.co.uk).

Statement of Accounts - Pension Fund Accounts

1.2 Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme, or make their own personal arrangements outside the scheme.

Organisations participating in the Essex Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are around **640** employer organisations within Essex Pension Fund including the County Council itself.

1.3 Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with The LGPS Regulations 2013 and range from **5.5%** to **12.5%** of pensionable pay for the financial year ending 31 March 2016. Employees can also opt to pay a reduced contribution. This is commonly referred to as the '50/50' option. At any time, an active member can opt to pay half of their normal contribution. This option results in the pension built up during this time being reduced by half. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at **31 March 2013**. Details can be found on the website www.essexpensionfund.co.uk.

1.4 Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the Essex Pension Fund website www.essexpensionfund.co.uk.

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2. Basis of preparation

The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 issued by CIPFA, which is based upon International Financial Reporting Standards (IFRS) as amended for UK public sector and with the guidelines set out in the Statement of Recommended Practice 2015/16 (SORP). The accounts are prepared on a going concern basis.

The Pension Fund publishes a number of statutory documents, including a Statement of Investment Principles, a Funding Strategy Statement and Statements of Compliance. Copies are available on the Pension Fund website www.essexpensionfund.co.uk.

The Pension Fund Financial Statement of Accounts summarises the transactions for the 2015/16 financial year and its position as at 31 March 2016. The accounts do not reflect obligations to pay pensions and benefits that fall due after the financial year. However, a statement calculating the Fund's actuarial present value of promised retirement benefits as at 31 March 2016 using IAS19 methodology is included in the notes to the accounts and can be found at Note 3.3.

3. Actuarial valuation

The contributions payable for 2015/16 were determined by the 2013 Actuarial Valuation.

3.1 Actuarial Valuation 2013

An actuarial valuation of the Essex Pension Fund was carried out as at 31 March 2013 to determine the contribution rates with effect from 1 April 2014 to 31 March 2017. The results of the valuation are contained within the Statement by the Consulting Actuary of the Pension Fund Report and Accounts.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of **£3,926m** (on a smoothed basis) represented **80%** of the Funding Target liabilities of **£4,878m** at the valuation date. The valuation also showed that a common rate of contribution of **14.3%** of Pensionable Pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit could be eliminated by an average additional contribution rate of **7.2%** of Pensionable Pay for 20 years. This would imply an average employer contribution rate of **21.5%** of Pensionable Pay in total.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the Actuary's statement. In addition to the certified contributions,

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payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method. Full details of the actuarial assumptions are contained within the full valuation report that is available from www.essexpensionfund.co.uk.

The main financial assumptions used were as follows:

	Past and Future liabilities Rate per annum
Rate of discount	5.80%
Retail Price Index (RPI)	3.50%
Consumer Price Index (CPI)	2.70%
Rate of increase to pensions in payment (in excess of guaranteed minimum pension)	2.70%
Short term pay increase	In line with CPI assumptions for 2 years to 31 March 2015
Long term pay increase	4.50%

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of this valuation, the contributions payable by the individual employers will be revised with effect from 1 April 2017.

3.2 Actuarial present value of promised retirement benefits

Many of the Fund's employers comply with the accounting disclosure requirements of either IAS 19 or FRS 102. These accounting standards specify the approach taken when calculating liabilities for disclosure in an employer's annual accounts – they do not determine the employer contribution. Employer contributions are determined via the Actuarial Valuation (as described in note 3 above).

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3.3 Actuarial present value of promised retirement benefits

Separate to the Actuarial Valuation, IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed. For this purpose the actuarial assumptions and methodology used are based on IAS 19 rather than the assumptions and methodology used in the Actuarial Valuation for funding purposes.

In order to assess the present value of the Fund's obligation on this basis, the Actuary, allowing for the different financial assumptions required under IAS 19 has a roll forward approach in valuing the Fund's liabilities which were last calculated at the triennial actuarial valuation as at 31 March 2013.

Liabilities are valued using a discount rate based on corporate bond yields. At 31 March 2016 the Actuary has used the point of the Merrill Lynch AA-rated corporate bond yield curve which is closest to the duration of the Fund's liabilities.

The duration of the Fund's liabilities is the weighted average time to pay each future expected cash flow for each member. This is based on the data from the last actuarial valuation. The Fund's liability duration as at 31 March 2016 is 18 years which in turn means a discount rate of **3.6%** per annum (31 March 2015: 3.3%). The value of the Fund's promised retirement benefits as at 31 March 2016 was **£7,438m** (31 March 2015: £7,517m).

Similar calculations were carried out as per the prior actuarial valuation date of 31 March 2013, using the same actuarial assumptions as those used for funding purposes at that date, other than the discount rate where a rate of **4.3%** per annum was used. On this basis, the value, for IAS 26 purposes, of the Fund's promised retirement benefits at that date was **£6,585m**.

4. Accounting policies

4.1 Fund Account – revenue recognition

4.1.1 Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund Actuary in the payroll period to which it relates.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and financial strain contributions are accounted for in the period in which the liability arises. Any amounts due in the year but unpaid are classed as a current financial asset. Amounts not due until future years are classed as long-term assets.

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4.1.2 Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Scheme Regulations (see Note 8 which commences on page 156).

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and included in Transfers in (see Note 8 which commences on page 156).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

4.1.3 Investment Income

▪ Dividend income

This income is recognised in the Fund Account on the date the shares are quoted ex-dividend. Any amounts not received by 31 March are disclosed in the Net Assets Statement as other investment balances due. Investment income also includes withholding tax where this cannot be recovered. The amount of irrecoverable withholding tax is disclosed as a separate line item on the face of the Fund Account, and a more detailed breakdown can be found in Note 14 (page 171).

▪ Income from fixed interest, index linked securities, cash and short term deposits

This income is recognised in the Fund Account on an accruals basis, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction cost or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

▪ Income from other investments

This income is accounted for on an accruals basis. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement under other investment balances.

▪ Property related income

This consists primarily of rental income on property leases, and is recognised on a straight line basis over the term of the leases.

Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Contingent rents based on the future amount of a factor that

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changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

- **Change in market value of investments**

This is recognised as income during the year and comprises all increases and decreases in market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.

4.2 Fund Account – Expense items

4.2.1 Benefits payable

Under the regulations, retirees can receive a lump sum retirement grant in addition to their annual pension. Pensions and lump sum retirement grants are accounted for from the date of retirement. When a member chooses to take a greater retirement grant in return for reduced pension these lump sums are accounted for on an accruals basis from the date that the option is exercised. Any amounts due but not paid are disclosed in the Net Assets Statement as current liabilities.

Other benefits are accounted for on the date that members leave the Fund, or upon death.

4.2.2 Taxation

The Fund is a registered public service scheme under section 1 (1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax accounted for as a fund expense as it arises (see note 14).

As Essex County Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities, including expenditure on investments and property expenses.

4.2.3 Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its pension fund management expenses where possible in accordance with the CIPFA guidance 'Accounting for Local Government Pension Scheme Management Costs'.

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4.2.4 Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension's administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund. In 2015/16 this totalled **£1.065m** (£1.272m in 2014/15).

4.2.5 Oversight and governance

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund. In 2015/16, this totalled **£1.073m** (£1.306m in 2014/15).

4.2.6 Investment management expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. For the investment managers who manage the main asset classes of the Fund these are broadly based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. With the investment managers who manage the alternative assets the fees are generally calculated on a commitment basis.

No performance related fees were payable in 2015/16 (none in 2014/15).

Some of the Fund's investments are via pooled vehicles. In the majority of cases the investment manager deducts its management fees directly i.e. the Fund are not invoiced for these costs.

The Fund in 2015/16 has changed its policy in the treatment of these fees in accordance with CIPFA's guidance.

In prior years management fees were grossed up and offset via investment income. The gross up of management fees are now offset through the change in market value of these investments. The change in policy has a net nil effect.

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2015/16, **£3.037m** of fees is based on such estimates (2014/15: £2.957m). A creditor has been raised and the actual invoice amount is shown within current liabilities.

The costs of the Pension Fund investment function are charged direct to the Fund along with any direct running costs.

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The cost of obtaining investment advice from external consultants is included in investment management charges.

4.3 Net Assets Statement

4.3.1 Financial Assets

Financial assets are held at fair value, as at each 31 March, and are recognised on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in fair value of the asset are recognised in the Fund Account.

4.3.2 Valuation of investments

The value of investments is determined as outlined in the following paragraphs.

- **Market Quoted Investments**

The value of these investments is taken as the bid market price ruling on each 31st March where available.

- **Unquoted Investments**

Unquoted equity, and private equity limited partnership, investments are valued based on the Fund's share of the net assets of the partnership using the latest financial statements published by the respective fund managers. In 2015/16, these are mainly valued as at 31 December 2015, in accordance with the guidelines issued by the British Venture Capital Association or an equivalent body. As such, an estimate of the valuation at 31 March 2016 is made. The 31 December valuation is adjusted for payments made to, and received from, the private equity managers in the period 1 January to 31 March.

Investments in unquoted property, timber and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.

- **Directly held investments**

These include investments in limited partnerships, unlisted companies, trust and bonds.

The valuation of other unquoted securities (typically including pooled investments in property, infrastructure, debt securities and private equity) is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or standards set by the constituent documents of the pool or the management agreement.

- **Unit trusts and managed funds**

These are valued at bid prices provided by the relevant fund managers, which reflect the market value of the underlying investments.

In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the Fund, net of applicable withholding tax.

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▪ Value of fixed interest investments

Fixed interest investments are recorded at net market value, based on their current yield (i.e. excludes interest earned but not paid over at the Fund year-end, which is included separately within accrued investment income and disclosed within note 11).

▪ Direct Property Investments

Direct property investments have been valued, at open market value as at 31 March 2016, by Jones Lang LaSalle, Chartered Surveyors. The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's-length terms.

4.3.3 Derivatives

Derivative financial instruments are used to manage exposure to specific risks arising from the Fund's investment activities – they are not held for speculative purposes.

Derivative contracts assets are held at fair value bid price, and liabilities are fair valued at offer prices. Changes in the fair value of derivatives are included in the change in market value (see note 11).

The value of futures contracts is determined using exchange prices published by the relevant futures exchange (e.g. LIFFE – London International Financial Futures Exchange) at the reporting date. Amounts due from or owed to the broker are amounts outstanding in respect of the initial margin and variation margin. No future contracts were entered into in the year of reporting, or in the prior year.

Forward foreign exchange contracts outstanding at year end are stated at fair value, which is determined as the loss or gain that would arise if the outstanding contract was required to be settled on 31 March.

4.3.4 Dividends, Interest and Foreign Currencies

Dividend, interest, purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

4.3.5 Cash and Cash Equivalents

Cash comprises of cash in hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

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4.3.6 Financial Liabilities

Financial liabilities are recognised at fair value on the date the Fund becomes party to the liability, and any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

4.3.7 Contingent liabilities and contingent assets

Contingent liabilities are possible obligations that arise from past events whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Pension Fund's control.

Contingent assets are possible assets that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the Pension Fund's control.

Contingent liabilities are not recognised in the financial statements, but are disclosed as a note to the accounts, unless the possibility of an outflow of resources is remote.

Contingent assets are not recognised in the financial statements but are disclosed as a note to the accounts where an inflow of economic benefits or service potential is probable and can be reliably measured.

4.3.8 Other financial Instruments

Financial assets are recognised only when goods or services have been provided or rendered to a third party. Financial liabilities are recognised when the goods or services ordered from a third party have been received by the Fund and the third party has performed its contractual obligations.

The Fund currently only has liabilities carried at amortised cost and the carrying amount for instruments that will mature within the next twelve months from the balance sheet date is assumed to equate to the fair value.

The fair values of loans and receivables at 31st March have been reviewed and were assessed as being the same as the carrying amounts in the Balance Sheet. Assets are carried in the Balance Sheet at fair value. The values are based on the bid price.

When an asset or liability is translated at balance sheet date the gain / loss is taken as unrealised but when the asset or liability is settled (i.e. received / paid) the gain / loss becomes realised. The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

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5. Critical judgements in applying accounting policies

In applying the accounting policies set out within Note 4, the Fund has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Fund Accounts are:

- **Use of Financial Instruments**

The Fund uses derivatives financial instruments to manage its exposure to specific risks arising from its investments. The valuation of these types of investments is highly subjective in nature. They are inherently based on forward-looking estimates and judgements that involve many factors.

- **Unquoted private equity**

Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities as at 31 March 2016 was **£247.3m** (31 March 2015: £238m).

- **Infrastructure**

Overseas infrastructure values are determined in accordance with generally accepted valuation principles, in compliance with article 5 (3) of the Luxembourg law of 15 June 2004 on investment companies in risk capital. The infrastructure portfolio managed by MandG Investments is valued by the investment manager using guidelines set out by the International Private Equity and Venture Capital (IPEV) Valuation Guidelines. The value of infrastructure as at 31 March 2016 was **£162.1m** (31 March 2015: £159.0m).

- **Timber**

Timber valuations are determined by independent appraisers that typically estimate fair market values in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) and standards of professional appraisal practice that prevail in the countries where assets are located. The value of timber as at 31 March 2016 was **£77.7m** (31 March 2015: £49.1m).

- **Pension fund liability**

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with International Accounting Standard (IAS) 19. This estimate is subject to significant variances, based on changes to the underlying assumptions.

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of the promised retirement benefits by way of a note to the Net Assets Statement. This is shown in Note 3.3.

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6. Assumptions made about the future and other major sources of estimation uncertainty

The Fund Accounts contain estimated figures that are based on assumptions made about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the net assets statement at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
<p>Actuarial present value of promised retirement benefits</p> <p><i>Note: Results are taken from the 2013 Actuarial valuation)</i></p>	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.</p>	<p>The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £415m.</p> <p>An increase of the CPI assumption by 0.5% per annum increases the value of liabilities by approximately £354m.</p> <p>A 0.5% increase in the long-term rate of salary increase would increase the value of liabilities by approximately £46m.</p> <p>Increasing the long-term rate of improvement used in the mortality projection from 1.5% to 1.75% per annual would increase the liability by approximately £45m.</p>
<p>Private equity / Infrastructure / Timber / Illiquid debt</p>	<p>Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.</p>	<p>The total private equity, infrastructure, timber and illiquid debt investments in the financial statements are £563.7m. There is a risk that this investment may be under or overstated in the accounts.</p>

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7. Events after the reporting date

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

- a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period), and
- b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

For example, if there had been a marked decline in the global stock markets that would impact upon the market value of the fund's investments were they to be valued as at the date the accounts were authorized for issue, this would be deemed a non-adjusting post-balance-sheet event and would be disclosed in this note.

An example of an adjusting event would be if new information came to light regarding the methodology employed in the valuation of an asset.

8. Membership activities

8.1 Membership

31 March 2015		31 March 2016 <i>Estimate</i>
50,965	Contributors	54,584
44,038	Deferred pensioners	54,795
35,455	Pensioners	37,791

Deferred pensioners are former employees who have chosen not to transfer their pension rights.

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8.2 Pension benefits payable

2014/15 £000		2015/16 £000
63,322	Administering Authority	65,215
89,588	Scheduled Bodies	91,145
8,035	Admitted Bodies	8,085
4,587	Community Admission Bodies	7,123
4,849	Transferee Admission Bodies	5,375
519	Resolution Bodies	524
<u>170,900</u>		<u>177,467</u>

8.3 Contributions receivable

8.3.1 By category

Contributions receivable from employers are set out below:

2014/15 £000		2015/16	
		£000	£000
52,676	Employee's normal contributions		53,964
	Employers' normal contributions		
113,458	Normal contributions	114,743	
71,706	Employers' deficit recovery contributions	48,247	
3,490	Employers' augmentation	5,453	
<u>188,654</u>			<u>168,443</u>
<u>241,330</u>			<u>222,407</u>

Employers' augmentation relates to payments for the cost of early retirements.

The change in the employer deficit from 2014/15 is associated with the Valuation 2013 where fourteen employers chose to pay a triennial payment. Ten of these were paid in April 2015 amounting to **£26.709m**.

In 2014/15 Colchester Women's Refuge entered into a three year cessation plan, paying the second instalment of **£21,000** in 2015/16. One final payment of **£21,000** is due in 2016/17.

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In 2015/16 Essex County Scout Council entered into a five year cessation plan paying the first instalment of **£28,000** in 2015/16. Four further payments of **£30,000** are due in 2016/17, 2017/18, 2018/19 and 2019/20.

In 2015/16 final termination amounts were received from Home Group **£23,000**.

8.3.2 By type

2014/15			2015/16		
Member £000	Employer £000		Member £000	Employer £000	
16,457	50,185	Administering Authority	16,741	50,956	
31,284	121,559	Scheduled Bodies	32,540	101,047	
949	5,179	Admitted Bodies	949	5,499	
1,342	4,747	Community Admission Bodies	1,286	4,526	
2,389	6,259	Transferee Admission Bodies	2,177	5,611	
255	725	Resolution Bodies	271	804	
52,676	188,654		53,964	168,443	

Following a review in the year, Anglia Ruskin University has been reclassified from Community Admission Body to Scheduled Body.

8.4 Transfers in from, and out to, other pension funds

2014/15			2015/16		
Transfers in £000	Transfers out £000		Transfers in £000	Transfers out £000	
-	58,484	Group transfers	-	-	
8,181	6,079	Individual transfers	7,936	5,288	
8,181	64,563	Total	7,936	5,288	

No amounts were payable in respect of group transfers to other schemes during 2015/16. In 2014/15, a group transfer to Greater Manchester Pension Fund was paid in respect of Probation Services.

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9. Investment Income

9.1 By Type

2014/15 <i>Restated</i> £000		2015/16 £000
24,767	Dividends from equities	25,865
2,009	Income from index linked securities	1,016
6,722	Private Equity income	4,855
8,349	Infrastructure / timberland income	15,748
7,219	Managed fund income	11,978
6,268	Income from pooled property investments	6,739
17,325	Net rent from properties	19,443
488	Interest from cash deposits	458
875	Other	1,056
74,022	Total investment income showing net property rent	87,158
	Add back:	
1,705	Property operating expenses	594
75,727	Total investment income showing gross property rent	87,752

For 2015/16 the breakout of investment income has been expanded. The 2014/15 dividend income figure has been restated. Some of the dividend income has been re-categorised to the new categories, private equity income, infrastructure/timberland income and managed funds income. This has resulted in a net nil effect to the bottom line.

The above table shows rent from properties net of related expenses, but the Fund Account shows rent from properties on a 'gross' basis.

9.2 Investment property net rental

2014/15 £000		2015/16 £000
17,056	Rental Income from investment property	19,486
(1,696)	Direct operating expenses arising from investment property	(290)
15,360	Total	19,196

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9.3 Contractual rental receivable

The table below shows the contractual amount of rental income due to the Fund as at 31 March:

2014/15 £000		2015/16 £000
16,861	Within one year	17,445
53,752	Between one and five years	51,547
45,024	Beyond five years	41,141
115,637	Total	110,133

9.4 Movement in the fair value of investment properties

	Freehold £000	Leasehold £000	Total £000
Fair value at 1 April 2014	174,330	62,970	237,300
Additions	44,827	13,604	58,431
Disposals	-	-	-
Net gain/loss on fair value	21,588	4,816	26,404
Fair value at 31 March 2015	240,745	81,390	322,135
Additions	33,166	24	33,190
Disposals	(9,349)	(9,855)	(19,204)
Net gain/loss on fair value	20,008	2,651	22,659
Fair value at 31 March 2016	284,570	74,210	358,780

10. Management expenses

10.1 By type

2014/15 £000		2015/16 £000
1,272	Administration costs	1,065
26,201	Investment management expenses	29,678
1,306	Oversight and governance	1,073
28,779	Total	31,816

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The direct running costs recharged back to the Fund are apportioned out as per the CIPFA guidance on LGPS Management Costs. Investment transaction costs incurred during the year are included within Investment Management expenses. These were **£768,000** for 2015/16 (2014/15: £791,000).

10.2 Investment management expenses

2014/15 £000		2015/16 £000
25,909	Management fees	29,384
292	Custody fees	294
26,201	Total	29,678

11. Investments

11.1 Value of investments held by managers

The value of investments held by each fund manager on 31 March was as follows:

2015			2016		
£m	%		£m	%	
64	1.3	Alcentra Ltd	79	1.6	
586	11.9	Aviva Investors	619	12.4	
489	10.0	Baillie Gifford and Co	398	8.0	
250	5.1	Stewart Investors (formerly First State)	243	4.9	
233	4.7	Goldman Sachs Asset Management International	235	4.7	
247	5.0	Hamilton Lane	257	5.1	
1,551	31.6	Legal and General Investment Management	1,558	31.2	
(26)	-0.5	Legal and General Investment Management (Currency)	(18)	-0.4	
370	7.6	Longview Partners	384	7.7	
379	7.7	Marathon Asset Management Ltd	393	7.9	
299	6.1	M&G Investments	347	6.9	
238	4.9	M&G Investments Alpha Opportunities	238	4.8	
84	1.7	M&G Investments Infracapital	61	1.2	
12	0.2	M&G Investments Financing Fund	9	0.2	
75	1.5	Partners Group Management II S.à r.l	107	2.1	
3	0.1	RWC Specialist UK Focus Fund (formerly Hermes)	1	-	
49	1.0	Stafford Timberland Limited	78	1.6	
3	0.1	Other	6	0.1	
4,906	100.0		4,995	100.0	

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11.2 Investments by asset type

The tables below provide an analysis of investment assets by type and show the movements in the market value of the investments, including profits and losses realised on the sales of investments:

2014/15	Value at 1 April 2014	2014/15 Movement					Value at 31 March 2015
		Purchases	Net Transfers	Sale Proceeds	Change in Market Value	Cash Movement	
	£000	£000	£000	£000	£000	£000	£000
Fixed interest securities							
UK quoted	186,598	50,000	-	-	(4,030)	-	232,568
Equities							
UK quoted	128,633	17,534	-	(10,837)	18,643	-	153,973
Overseas quoted	1,053,329	221,346	-	(234,093)	237,906	-	1,278,488
UK unit trusts	228,767	11,890	(14,376)	(76)	17,565	-	243,770
Overseas unit trusts	685,980	14,285	(44,334)	(639)	124,840	-	780,132
Global unit trusts	547,585	933	-	(526)	61,153	-	609,145
Index linked securities (UK public sector quoted)	344,996	21,762	78	(200,833)	50,529	-	216,532
Property							
UK properties (freehold)	174,330	44,827	-	-	21,588	-	240,745
UK properties (leasehold)	62,970	13,604	-	-	4,816	-	81,390
Property unit trusts	231,664	5,038	-	(41,840)	22,590	-	217,452
Private equity							
UK unquoted	422	54	-	(17)	(295)	-	164
Overseas unquoted	211,611	50,386	-	(51,924)	27,742	-	237,815
Infrastructure							
UK unquoted	67,760	1,314	-	(284)	15,290	-	84,080
overseas unquoted	59,476	21,117	-	(4,711)	(987)	-	74,895
Timber (Overseas unquoted)	34,705	12,767	-	(521)	2,106	-	49,057
Illiquid Debt							
UK unquoted	-	24,000	-	-	442	-	24,442
Overseas unquoted	-	54,424	-	(11,419)	(4,118)	-	38,887
Active currency (UK unquoted)	-	-	-	-	-	-	-
Other managed funds							
UK unquoted	185,029	74,799	-	(3,174)	(2,989)	-	253,665
Overseas unquoted	-	-	-	-	-	-	-
Cash							
Cash deposits held at the custodian/other							
Sterling	44,712	-	-	-	-	26,630	71,342
Foreign currency	48,796	-	-	25,006	(25,006)	(10,328)	38,468
	4,297,363	640,080	(58,632)	(535,888)	567,785	16,302	4,927,010
Adjustments for							
Transaction costs	-	(488)	-	(303)	791	-	-
Capitalised alternative asset management fees	-	(4,848)	-	-	4,848	-	-
	4,297,363	634,744	(58,632)	(536,191)	573,424	16,302	4,927,010
Other investment balances							
Assets							
Amounts receivable for sales of investments	3,787						1,232
Investment income due	6,737						5,202
Liabilities							
Amounts payable for purchase of investments	(1,428)						(1,873)
Investment withholding tax payable	(113)						(114)
Derivative pending foreign currency contracts							
Assets	4,282						22,902
Liabilities	(390)						(48,206)
	4,310,238						4,906,153

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2015/16	Value at 1 April 2015	2015/16 Movement					Value at 31 March 2016
		Purchases	Net Transfers	Sale Proceeds	Change in Market Value	Cash Movement	
	£000	£000	£000	£000	£000	£000	£000
Fixed interest securities							
UK quoted	232,568	-	-	-	2,918	-	235,486
Equities							
UK quoted	153,973	9,641	(1,694)	(36,200)	(5,693)	-	120,027
Overseas quoted	1,278,488	254,675	(98,301)	(209,200)	18,182	-	1,243,844
UK unit trusts	243,770	37,379	(3,388)	(9,603)	(4,344)	-	263,814
Overseas unit trusts	780,132	137,901	26,087	(142,342)	(7,756)	-	794,022
Global unit trusts	609,145	20,826	77,296	(3,281)	(1,588)	-	702,398
Index linked securities (UK public sector quoted)	216,532	45,558	111	(119,397)	1,565	-	144,369
Property							
UK properties (freehold)	240,745	33,166	-	(9,349)	20,008	-	284,570
UK properties (leasehold)	81,390	24	-	(9,855)	2,651	-	74,210
Property unit trusts	217,452	6,452	5,608	(25,845)	11,422	-	215,089
Private equity							
UK unquoted	164	-	-	(125)	-	-	39
Overseas unquoted	237,815	46,354	-	(69,855)	32,928	-	247,242
Infrastructure							
UK unquoted	84,080	1,330	-	(38,671)	13,985	-	60,724
overseas unquoted	74,895	23,204	-	(10,439)	13,701	-	101,361
Timber (Overseas unquoted)	49,057	19,134	-	(1,074)	10,558	-	77,675
Illiquid Debt							
UK unquoted	24,442	-	-	(69)	921	-	25,294
Overseas unquoted	38,887	12,564	-	(3,784)	3,744	-	51,411
Active currency (UK unquoted)	-	-	-	-	-	-	-
Other managed funds							
UK unquoted	253,665	5,648	-	(4,081)	(6,874)	-	248,358
Overseas unquoted	-	-	-	-	-	-	-
Cash							
Cash deposits held at the custodian/other							
Sterling	71,342	-	-	-	-	5,201	76,543
Foreign currency	38,468	-	-	62,688	(62,688)	1,681	40,149
	4,927,010	653,856	5,719	(630,482)	43,640	6,882	5,006,625
Other investment balances							
Assets							
Amounts receivable for sales of investments	1,232						1,720
Investment income due	5,202						5,912
Liabilities							
Amounts payable for purchase of investments	(1,873)						(203)
Investment withholding tax payable	(114)						(150)
Derivative pending foreign currency contracts							
Assets	22,902						17,300
Liabilities	(48,206)						(35,744)
	4,906,153						4,995,460

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31 March 2015 £000		31 March 2016 £000
	Fixed interest securities	
232,568	UK quoted	235,486
	Equities	
153,973	UK quoted	120,027
1,278,488	Overseas quoted	1,243,844
243,770	UK unit trusts	263,814
780,132	Overseas unit trusts	794,022
609,145	Global Unit trusts	702,398
216,532	Index linked securities: UK public sector quoted	144,369
	Property	
240,745	UK properties (freehold)	284,570
81,390	UK properties (leasehold)	74,210
217,452	Property unit trusts	215,089
	Private equity	
164	UK unquoted	39
237,815	Overseas unquoted	247,242
	Infrastructure	
84,080	UK unquoted	60,724
74,895	Overseas unquoted	101,361
49,057	Timber: Overseas unquoted	77,675
	Illiquid Debt	
24,442	UK unquoted	25,294
38,887	Overseas unquoted	51,411
253,665	Other managed funds: UK unquoted	248,358
	Derivative contracts	
22,902	Assets: Derivative pending foreign currency contracts	17,300
(48,206)	Liabilities: Derivative pending foreign currency contracts	(35,744)
	Cash deposits	
	Cash deposits held at custodian/other	
71,342	Sterling	76,543
38,468	Foreign currency	40,149
4,901,706		4,988,181
	Other investment balances	
	Assets	
1,232	Amounts receivable for sales of investments	1,720
5,202	Investment income due	5,912
	Liabilities	
(1,873)	Amounts payable for purchase of investments	(203)
(114)	Investment withholding tax payable	(150)
4,906,153	Value at 31 March	4,995,460

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11.3 Pooled investments representing 5% or more of net assets

The Fund holds the following investments in unit trusts/pooled vehicles which are in excess of 5% of the value of the Fund:

31 March 2015			31 March 2016		
£000	%		£000	%	
309,953	6.3	Legal & General FTSE RAFI AW 3000 Index	355,774	7.1%	
299,192	6.1	M&G Global Dividend Fund	346,624	6.9%	
342,702	6.9	Legal & General North America Equity Index	344,396	6.8%	
248,438	5.0	Legal & General Europe (Ex UK) Equity Index	257,839	5.1%	

11.4 Single investments in excess of 5% of any asset types

The Fund holds the following single investments at 31 March which are in excess of 5% of any asset class or type of security:

31 March 2015		Asset type / Asset name	31 March 2016	
£000	%		£000	%
UK QUOTED EQUITIES				
18,194	11.8%	Unilever plc Ord GBP0.031	20,188	16.8%
16,197	10.5%	WPP Plc Ord GBP0.10	16,255	13.5%
13,580	8.8%	Compass Group Ord GBP0.10	14,038	11.7%
12,829	8.3%	Lloyds Banking GP Ord GBP0.1	13,263	11.1%
7,169	4.7%	Sabmiller plc Ord050.10	7,592	6.3%
9,821	6.4%	Arm Holdings Ord GBP0.0005	7,224	6.0%
6,243	4.1%	Reckitt Benck GBP Ord GBP0.10	6,020	5.0%
12,650	8.2%	Imperial Tobacco GBP0.10	-	-
12,229	7.9%	Pearson Ord GBP0.25	-	-
8,186	5.3%	Burberry Group Ord GBP0.0005	-	-
UK INDEX LINKED BONDS				
11,088	5.1%	UK (Govt) Treasury IL Stock 1.250% 22 Nov 2055	5,782	4.0%
PROPERTY				
23,950	7.4%	Canning Town Business Park, London	26,900	7.5%
20,000	6.2%	48-49 Chancery Lane, London	21,950	6.1%

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31 March 2015		Asset type / Asset name	31 March 2016	
£000	%		£000	%
PROPERTY UNIT TRUSTS				
34,217	15.7%	Aviva Investors Property Fund	34,388	16.0%
16,034	7.4%	Industrial Property Investment Fund	19,616	9.1%
17,791	8.2%	Blackrock UK Property Fund	18,846	8.8%
14,754	6.8%	Standard Life Property Fund Closed	16,174	7.5%
8,291	3.8%	Airport Industrial Fund	14,756	6.9%
14,708	6.8%	Lothbury Property Fund	14,726	6.8%
13,559	6.2%	Standard Life UK Shopping Centre	13,986	6.5%
12,187	5.6%	Unite UK Student Accomodation Fund	13,679	6.4%
11,734	5.4%	Henderson UK Retail Warehouse Fund	12,020	5.6%
INFRASTRUCTURE				
84,080	52.9%	Infracapital Partners	60,724	37.5%
46,182	29.1%	Partners Group Global Infrastructure 2009 S.C.A., SICAR	50,068	30.9%
18,634	11.7%	Partners Group Global Infrastructure 2012 LP	31,948	19.7%
10,079	6.3%	Partners Group Global Infrastructure 2011 S.C.A.,SICAR	14,513	9.0%
TIMBER				
38,814	79.1%	Stafford International Timberland VI Fund LP	47,405	61.0%
10,243	20.9%	Stafford International Timberland VII Fund (No 2) LP	30,270	39.0%
ILLIQUID DEBT				
38,887	61.4%	Clareant (formerly Alcentra) European DLF Investor Feeder (No.2) LP	51,412	67.0%
24,443	38.6%	Clareant (formerly Alcentra) Global Multi-Credit Solutions Class IV A GBP	25,294	33.0%
OTHER MANAGED FUNDS				
238,436	94.0%	M&G Alpha Opportunities Fund	237,654	95.7%
CASH				
44,256	40.3%	BNP Paribas Investment Partners GBP	36,360	31.2%
24,347	22.2%	Northern Trust Liquidity Fund GBP	29,730	25.5%
25,934	23.6%	Northern Trust Liquidity Fund US\$	22,334	19.1%
6,355	5.8%	BNP Paribas Investment Partners EURO	-	-

11.5 Derivative contracts

11.5.1 Objectives and policies for holding derivatives

Most of the holdings in derivatives are to hedge liabilities or hedge exposure to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment agreement agreed between the Fund and the various investment managers.

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11.5.2 Futures

There were no outstanding exchange traded futures contracts as at 31 March 2016 and 31 March 2015.

11.5.3 Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, **63.9%** of the Fund's NAS is in overseas assets as at 31 March 2016 (31 March 2015: 62.2%).

To reduce the volatility associated with fluctuating currency rates the Fund has a passive currency programme in place which is managed by Legal and General Investment Management. The Fund hedges **50%** of the US Dollar, Euro, Yen and other major overseas currency exposure within the portfolios managed by the growth managers.

11.5.4 Open forward currency contracts

Settlement	Currency Bought	Local value 000	Currency sold	Local value 000	Asset value £000	Liability value £000	Net value £000
Up to one month	AUD	28,380	GBP	15,073	116	-	116
Up to one month	CAD	24,175	GBP	12,880	123	-	123
Up to one month	CHF	28,689	GBP	20,793	50	-	50
Up to one month	EUR	81,608	GBP	64,460	242	-	242
Up to one month	GBP	13,491	AUD	28,388	-	(1,702)	(1,702)
Up to one month	GBP	11,605	CAD	24,175	-	(1,398)	(1,398)
Up to one month	GBP	19,408	CHF	28,689	-	(1,435)	(1,435)
Up to one month	GBP	76,654	EUR	104,265	-	(6,018)	(6,018)
Up to one month	GBP	33,840	JPY	6,104,120	-	(3,946)	(3,946)
Up to one month	GBP	6,075	SEK	77,074	-	(540)	(540)
Up to one month	GBP	282,414	USD	421,526	-	(10,863)	(10,863)
Up to one month	GBP	-	ZAR	9	-	-	-
Up to one month	JPY	6,104,120	GBP	38,380	-	(594)	(594)
Up to one month	SEK	77,074	GBP	6,568	47	-	47
Up to one month	USD	421,526	GBP	298,081	-	(4,805)	(4,805)
							-
One to six months	GBP	39,775	AUD	77,717	-	(1,684)	(1,684)
One to six months	GBP	34,466	CAD	66,568	-	(1,335)	(1,335)
One to six months	GBP	53,427	CHF	74,174	-	(615)	(615)
One to six months	GBP	203,578	EUR	260,131	-	(3,028)	(3,028)
One to six months	GBP	142,753	JPY	22,848,727	1,081	-	1,081
One to six months	GBP	21,505	SEK	256,012	-	(512)	(512)
One to six months	GBP	902,202	USD	1,270,596	18,372		18,372
Open forward currency contracts at 31 March 2016					20,031	(38,475)	(18,444)
Open forward currency contracts at 31 March 2015					11,970	(37,274)	(25,304)

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12. Additional Voluntary Contributions (AVC) Investments

AVC's are not included in the accounts in accordance with section 4(2) (b) of the Local Government Pension Scheme (Management and Investments of Funds) Regulations 2009 but are disclosed as a note only.

The AVC providers to the Fund are the Equitable Life Assurance Society, Prudential and Standard Life Assurance Company. The assets of these investments are held separately from the Fund. The AVC providers secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in these arrangements each receive an annual statement confirming the amounts held in their account and the movements in the year.

The Fund relies on individual contributors to check that deductions made on their behalf are accurately reflected in the statements provided by the AVC providers. A summary of the information provided by Equitable Life, Prudential and Standard Life to the Fund is shown in the table below.

12.1 Reconciliation of movements in AVC investments

2014/15 £000		2015/16 £000
5,655	Value of AVC fund at beginning of year	6,178
662	Employees contributions	655
592	Investment income and change in market value	(27)
(731)	Benefits paid and transfers out	(969)
<u>6,178</u>		<u>5,837</u>

12.2 Analysis of AVC investments by Provider

2014/15 £000		2015/16 £000
160	Equitable Life	131
389	Prudential	718
5,629	Standard Life	4,988
<u>6,178</u>		<u>5,837</u>

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13. Current assets and liabilities

13.1 Analysis of current assets

31 March 2015 £000		31 March 2016 £000 £000	
Cash Balances			
2,457	Cash at bank	788	
11,510	Cash on short term deposits within 3 months	25,523	
<u>13,967</u>			26,311
Debtors and payments in advance			
3,774	Contributions due – employees	3,784	
11,823	Contributions due – employers	13,398	
547	Sundry debtors	487	
<u>16,144</u>			17,669
<u>30,111</u>	Total		<u>43,980</u>

13.2 Analysis of debtors

31 March 2015			31 March 2016		
Short term £000	Long term £000		Short term £000	Long term £000	
3,243	6,309	Central Government	3,505	5,058	
11,274	77	Other Local Authorities	11,412	24	
42	-	NHS Bodies	29	-	
860	70	Public Funded Bodies	2,033	114	
725	-	Other	690	-	
<u>16,144</u>	<u>6,456</u>	Total	<u>17,669</u>	<u>5,196</u>	

13.3 Analysis of long term debtors

31 March 2015 £000		31 March 2016 £000	
157	Financial strain instalments due	83	
6,299	Other employer contributions due	5,113	
<u>6,456</u>	Total	<u>5,196</u>	

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13.4 Contingent assets

To protect the Fund from employer default the Funding Strategy sets out safeguards to be in place on all new admission agreements. These can include a guarantee from another Fund employer with sufficient covenant strength, and a surety bond or other contingent asset.

13.5 Analysis of current liabilities

31 March 2015 £000		31 March 2016 £000
	Unpaid benefits and other current liabilities	
(715)	Contributions due – employers	(193)
(3,168)	Investment manager fees payable	(3,037)
(4,572)	Benefits payable	(4,091)
(1,642)	Other	(211)
<u>(10,097)</u>	Total	<u>(7,532)</u>

13.6 Analysis of creditors

31 March 2015 £000		31 March 2016 £000
	Creditors and receipts in advance	
(261)	Central Government	(111)
(3,932)	Other Local Authorities	(1,399)
(109)	NHS Bodies	(2)
(590)	Public Funded Bodies	(851)
(5,205)	Other	(5,169)
<u>(10,097)</u>	Total	<u>(7,532)</u>

13.7 Contingent liabilities and contractual commitments

As at 31 March 2016, the Fund had a commitment to contribute a further **£479.2m** to its existing direct and indirect partnership investments, including private equity, infrastructure, timber, illiquid debt and financing (31 March 2015: £300.7m). The amounts called by these funds are irregular in both size and timing over a period of between five to ten years from the date of each original commitment.

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14. Taxes on income

The table below provides a breakdown of the taxes paid by the Fund in the UK and overseas.

2014/15 £000		2015/16 £000
551	UK withholding tax	560
2,077	Overseas withholding tax	3,157
102	Payment to HMRC in respect of returned contributions	117
<u>2,730</u>		<u>3,834</u>

15. Related party transactions

The Fund is required to disclose material transactions with bodies or individuals that have the potential to control or influence the Council, or to be controlled or influenced by the Council. The intention in making this disclosure is to make explicit the extent to which the Fund might have been constrained in its ability to operate independently, or might have secured the ability to limit another party's ability to negotiate freely with the Fund.

15.1 Administration of the Fund

The Essex Pension Fund is administered by Essex County Council.

The Council incurred costs of **£1.214m** in 2015/16 (2014/15: £1.702m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Fund and contributed **£50.956m** to the Fund in 2015/16 (2014/15: **£50.185m**). No significant amounts were owing to and due to be paid from the Fund in the year.

Surplus cash is invested by the County Council's treasury management team on the sterling money markets, in accordance with the Essex Pension Fund treasury management policy and strategy as agreed by the Essex Pension Fund Strategy Board on **23 March 2016**. This service is provided to the Fund at a cost of **£26,000** (2014/15: £26,000).

During the year to 31 March 2016, the Pension Fund had an average investment balance of **£27.089m** (2014/15: £20.096m) earning **£143,000** interest (2014/15: £108,000).

15.2 Governance

None of the Essex Pension Board Members, Investment Steering Committee Members or Senior Officers undertook any material transactions with the Essex Pension Fund. There were no

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material contributions due from the employer bodies at the end of the year that remained outstanding after the due date for payment.

15.3 Members of the LGPS

Essex County Council administers the LGPS for its own employees and numerous other bodies. Under legislation introduced in 2003/04, Councillors were also entitled to join the Pension Fund. However, under legislation introduced from 1 April 2014, the entitlement for Councillors to join the Pension Fund was removed. Those Members of the Essex Pension Board and Investment Steering Committee who, during 2015/16, were also members of the LGPS are listed below.

Representative of scheme members	County Councillors
▪ S. Child	▪ Cllr N. J. Hume
Representative of scheme employers	▪ Cllr S. Barker
▪ C. Riley	▪ Cllr J. Whitehouse *
Representatives of small employing bodies	▪ Cllr K. Bobbin *
▪ J. Moore	▪ Cllr M. Mackrory *

** Membership relates to non councillor service.*

From 1 April 2015 pension funds were required to establish a local Pensions Board under section 5 of the Public Service Pensions Act 2013 and Local Government Pension Scheme Regulations 2013. Members of this Board, (Essex Pension Fund Advisory Board) who, during 2015/16, were also members of the LGPS are listed below:

Representative of scheme employers	Representative of scheme members
▪ J. Durrant	▪ K. Flowers
▪ Cllr B. Johnson	▪ P. Hewitt
▪ Cllr S. Walsh	▪ J. Hunt
	▪ M. Paget

As at 31 March 2016 Keith Neale, independent investment adviser to the Investment Steering Committee (ISC) was in receipt of pension benefits from the Fund during the financial year. Keith Neale ceased his role as independent investment adviser at the end of July 2015.

The employees of Essex County Council who hold key positions in the financial management of the Essex Pension Fund during 2015/16 were the Executive Director for Corporate and Customer Services, the Director for Essex Pension Fund and the Head of Essex Pension Fund. During 2015/16 approximately **2%** (2014/15: 2%) of the Executive Director for Corporate and Customer Services time was spent on the Pension Fund, with other officers spending 100% of their time in

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this way. As a consequence, the short term benefits (i.e. pay) associated with the time spent by these staff working on the Fund during 2015/16 was **£164,000** (2014/15: £161,000). The 2015/16 current service cost in respect of these personnel was **£75,000** (2014/15: £63,000). The current service cost is the increase in the value of the Fund's future liabilities arising out of employees' on-going membership of the Fund.

16. Agency Services

The Essex Pension Fund pays discretionary awards to former employees of both current and former employers' of the Fund. The amounts paid are not included within the Fund Account but are provided as a service and are fully reclaimed from the employer bodies.

The sums are disclosed below:

2014/15 £000		2015/16 £000
1,604	Administering Authority	1,554
5,616	Scheduled Bodies	5,509
-	Admitted Bodies	-
150	Community Admission Bodies	152
1	Transferree Admission Bodies	1
2	Resolution Bodies	2
29	Former employers	22
<hr/> 7,402	Total	<hr/> 7,240

17. Financial Instruments

17.1 Classification of financial instruments

The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement headings. No financial assets were reclassified during the accounting period.

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31 March 2015			Asset type	31 March 2016		
Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000		Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000
			Financial assets			
232,568	-	-	Fixed interest securities	235,486	-	-
3,065,508	-	-	Equities	3,124,105	-	-
216,532	-	-	Index linked securities	144,369	-	-
217,452	-	-	Pooled unit trusts	215,089	-	-
237,979	-	-	Private equity	247,281	-	-
148,896	-	-	Infrastructure	143,049	-	-
49,057	-	-	Timber	77,675	-	-
24,442	-	-	Illiquid debt	25,293	-	-
253,665	-	-	Other managed funds	248,358	-	-
22,902	-	-	Derivative contracts	17,300	-	-
-	123,777	-	Cash deposits	-	143,003	-
6,434	-	-	Other investment balances	7,632	-	-
-	-	-	Debtors	-	-	-
4,475,435	123,777	-		4,485,637	143,003	-
			Financial liabilities			
(48,206)	-	-	Derivative contracts	(35,744)	-	-
(1,987)	-	-	Other investments balances	(353)	-	-
-	-	(3,168)	Creditors	-	-	(3,037)
(50,193)	-	(3,168)		(36,097)	-	(3,037)
4,425,242	123,777	(3,168)	Balance at the end of the year	4,449,540	143,003	(3,037)
			Total			
4,545,851				4,589,506		

17.2 Net gains and losses on financial instruments

Asset value as at 31 Mar 2015 £000		Asset value as at 31 Mar 2016 £000
Financial assets		
576,632	Fair value through profit and loss	75,863
(25,006)	Loans and receivables	(62,688)
551,626	Total	13,175

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17.3 Fair value of financial instruments and liabilities

31 March 2015		31 March 2016	
Carry value	Fair value	Carry value	Fair value
£000	£000	£000	£000
		Financial assets	
4,475,435	4,475,435	4,485,637	4,485,637
123,777	123,777	143,003	143,003
4,599,212	4,599,212	4,628,640	4,628,640
		Financial liabilities	
(50,193)	(50,193)	(36,097)	(36,097)
(3,168)	(3,168)	(3,037)	(3,037)
(53,361)	(53,361)	(39,134)	(39,134)
4,545,851	4,545,851	4,589,506	4,589,506
Total net financial assets			

17.4 Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

- **Level 1** – Financial instruments where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Assets classified as Level 1 comprise equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investments is based on bid market quotation of the relevant stock exchange.
- **Level 2** – Financial instruments where quoted market prices are not available, for example where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.
- **Level 3** – Financial instruments where at least one input that could have significant effect on the instruments valuation is not based on observable market data.
Such instruments would include unquoted equity investments which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The value of the investment in private equity is based on valuations provided by the general partners to the private equity funds in which the Essex Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IRRS and US GAAP. Valuations are usually undertaken annually at the end of December, with unaudited valuations provided by the general partner as at 31 March.

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The valuations of infrastructure and timber are based on net asset value provided by the fund manager.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Level 1 to 3 based on the level at which the fair value is observable.

Values as at 31 March 2015				Values as at 31 March 2016		
Level 1 Quoted market prices £000	Level 2 Using observable inputs £000	Level 3 Significant unobservable inputs £000		Level 1 Quoted market prices £000	Level 2 Using observable inputs £000	Level 3 Significant unobservable inputs £000
			Financial assets			
3,543,944	471,117	460,374	Fair value through profit and loss	3,528,892	463,447	493,298
123,777	-	-	Loans and receivables	143,003	-	-
3,667,721	471,117	460,374		3,671,895	463,447	493,298
			Financial liabilities			
(50,193)	-	-	Fair value through profit and loss	(36,097)	-	-
(3,168)	-	-	Financial liabilities measured at amortised cost	(3,037)	-	-
(53,361)	-	-		(39,134)	-	-
3,614,360	471,117	460,374	Total net assets per level	3,632,761	463,447	493,298
			Total Net Assets			
4,545,851				4,589,506		

18. Nature and extent of risks arising

18.1 Risk and risk management

The Fund's primary long term risk is that the Fund assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole of the Fund's investments. The Fund achieves this through asset diversification to reduce its exposure to a variety of financial risks: market risk; other price risk; currency risk; interest rate risk and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Fund manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Investment Steering Committee (ISC). Risk management policies are established to identify and analyse the risks faced by the Fund's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

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18.2 Market risk

Market risk is the possibility that financial loss might occur as a result of fluctuations in equity and commodity prices, interest rates and foreign exchange. The level of risk exposure depends on market conditions, expectation of future price and yield movements and the asset mix.

Market risk is inherent in the investments that the Fund makes. To mitigate market risk the investments are made in a diversified pool of asset classes and investment approaches to ensure a risk adjusted balance between categories. The Fund takes formal advice from its institutional investment consultant, Hymans Robertson LLP, along with the Fund's independent adviser and the portfolio is split between a number of managers and investment strategies with different benchmarks and performance targets. Full details can be found in the Statement of Investment Principles which is available from the website www.essexpensionfund.co.uk. Investment risk and strategy are regularly reviewed by the Investment Steering Committee (ISC).

18.3 Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk) whether those changes are caused by factors specific to the individual instrument, its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All investments present a risk of loss of capital. The level of volatility will vary by asset class and also over time. The Fund has some diversification in the asset classes in which it invests, which seeks to reduce the correlation of price movements between different asset types, while employing specialist investment managers to best deploy capital in line with the Fund's overall strategy. The LGPS investment regulations also contain prescribed limits to avoid over-concentration in specific areas.

18.4 Other price risk sensitivity analysis

In consultation with its institutional consultants, Hyman Robertson LLP, an analysis of historical data and expected return movements during the accounting periods in question was undertaken. The table below shows the potential price movements deemed possible for the accounting period 2015/16.

The percentages shown in the following table are broadly consistent with a movement of one standard deviation in the value of the Fund's assets, and assumes that all other variables in particular foreign exchange rates and interest rates remain unchanged.

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31st March 2015 Potential Market movement %	Asset type	31st March 2016 Potential Market movement %
9.2%	UK bonds	9.2%
17.0%	UK equities	18.0%
21.0%	Overseas equities	21.0%
7.0%	UK index linked bonds	7.0%
15.0%	Pooled property unit trusts	15.0%
29.0%	Private equity	29.0%
15.0%	Infrastructure funds	15.0%
15.0%	Timber	15.0%
14.0%	Illiquid debt	14.0%
15.0%	Property	15.0%
1.0%	Cash	1.0%

Had the market price of the Fund investments increased/ (decreased) in line with the above assumptions the change in the net assets available to pay benefits would have been as follows:

31st March 2015 £000	Percentage change %	Value increase £000	Value decrease £000	Asset type	31st March 2016 £000	Percentage change %	Value increase £000	Value decrease £000
109,810	1.0%	110,908	108,712	Cash and equivalents	116,692	1.0%	117,859	115,525
				Investment portfolio assets				
232,568	9.2%	253,964	211,172	UK bonds	235,486	9.2%	257,151	213,821
153,973	17.0%	180,148	127,798	UK equities	120,027	18.0%	141,632	98,422
1,278,488	21.0%	1,546,970	1,010,006	Overseas equities	1,243,844	21.0%	1,505,051	982,637
243,770	17.0%	285,211	202,329	UK equities unit trusts	263,814	18.0%	311,301	216,327
780,132	21.0%	943,960	616,304	Overseas equities unit trusts	794,022	21.0%	960,767	627,277
609,145	21.0%	737,065	481,225	Global unit trusts	702,398	21.0%	849,902	554,894
216,532	7.0%	231,689	201,375	UK index linked bonds	144,369	7.0%	154,475	134,263
217,452	15.0%	250,070	184,834	Pooled property unit trusts	215,089	15.0%	247,352	182,826
237,979	29.0%	306,993	168,965	Private equity	247,281	29.0%	318,992	175,570
158,975	15.0%	182,821	135,129	Infrastructure	162,085	15.0%	186,398	137,772
49,057	15.0%	56,416	41,698	Timber	77,675	15.0%	89,326	66,024
63,329	14.0%	72,195	54,463	Illiquid Debt	76,705	14.0%	87,444	65,966
253,665	15.0%	291,715	215,615	Other managed funds	248,358	15.0%	285,612	211,104
322,135	15.0%	370,455	273,815	Property	358,780	15.0%	412,597	304,963
(25,304)	-	(25,304)	(25,304)	Net derivative assets	(18,444)	-	(18,444)	(18,444)
5,202	-	5,202	5,202	Investment income due	5,912	-	5,912	5,912
(114)	-	(114)	(114)	WHT payable	(150)	-	(150)	(150)
1,232	-	1,232	1,232	Amounts receivable for sales	1,720	-	1,720	1,720
(1,873)	-	(1,873)	(1,873)	Amounts payable for purchases	(203)	-	(203)	(203)
4,906,153		5,799,723	4,012,583	Total assets available to pay benefits	4,995,460		5,914,694	4,076,226

18.5 Sensitivity of funding position

Market conditions and the underlying investment performance of the Fund's assets will have a direct impact on the funding position, albeit that a smoothed rather than spot rate methodology is used by the Fund's Actuary.

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Barnett Waddingham's approach adopted at the 2013 Actuarial Valuation includes the following features:

- Financial assumptions such as inflation and the discount rate are based on smoothed market indicators from around the valuation date, specifically over the six month period from 1 January 2013 to 30 June 2013. The discount rate is based on the expected investment return from the Fund's assets.
- The market value of assets at 31 March 2013 is then adjusted to also be smoothed over the same six month period so that a consistent comparison can be made with the liabilities.

18.6 Interest rate risk

The Fund's investments are subject to interest rate risk (i.e. to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates). Interest rate risk primarily impacts on the valuation of the Funds' bond holdings and, to a lesser degree, the return it receives on cash held. The Fund has three bond mandates; a passive bond mandate with Legal and General and bond mandates with MandG Investments (MandG) and Goldman Sachs Asset Management (GSAM) in which exposure is actively managed. During 2015/16, the Fund commenced an investment in an illiquid debt mandate.

The Fund's direct exposure to interest rate movements is shown below. The underlying assets are shown at their fair value.

Asset value as at 31 Mar 2015 £000	Asset type	Asset value as at 31 Mar 2016 £000
109,810	Cash and cash equivalents	116,692
13,967	Cash balances	26,311
232,568	Fixed interest securities	235,486
216,532	Index-linked securities	144,369
63,329	Illiquid debt	76,705
636,206	Total assets	599,563

18.7 Interest rate risk sensitivity analysis

Interest rates have remained constant but this is not always the case and can vary. As a result, any variation in interest rates affects the level of income achievable and the value of the net assets of the Fund to pay benefits. The Fund's institutional consultants, Hymans Robertson, have undertaken a sensitivity analysis and advised that it is reasonable in today's climate that a movement increase/(decrease) of not more than 100 basis points on a year to year basis is possible based on past experience.

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The table below shows the effect in the year on the net assets available to pay benefits of an increase/(decrease) of 100 basis points change in interest rates assuming all other factors remain unchanged.

Asset value as at 31 Mar 2015 £000	Change in year in the net assets to pay benefits		Asset type	Asset value as at 31 Mar 2016 £000	Change in year in the net assets to pay benefits	
	+100 BPS £000	-100 BPS £000			+100 BPS £000	-100 BPS £000
109,810	1,098	(1,098)	Cash and cash equivalents	116,692	1,167	(1,167)
13,967	140	(140)	Cash balances	26,311	263	(263)
232,568	2,326	(2,326)	Fixed interest securities	235,486	2,355	(2,355)
216,532	2,165	(2,165)	Index-linked securities	144,369	1,444	(1,444)
63,329	633	(633)	Illiquid debt	76,705	767	(767)
636,206	6,362	(6,362)	Total change in assets available	599,563	5,996	(5,996)

18.8 Currency risk

Currency risk is the extent to which the fair value of future cash flows of a financial asset/liability will fluctuate due to changes in exchange rates. The Fund is exposed to currency risk on all assets that are denominated in any currency other than sterling, its reporting currency. To reduce the volatility associated with fluctuating currency rates the ISC has for the Fund put in place a passive currency overlay programme which is managed by Legal and General Investment Management. The Fund hedges 50% of the US Dollar, Euro, Yen and other major overseas currency exposure within the portfolios managed by the growth managers.

The following table summarises the Fund's currency exposure as at 31 March 2016 and prior year:

31 Mar 2015 £000	Asset type	31 Mar 2016 £000
1,278,488	Overseas equities quoted	1,243,844
780,132	Overseas unit trusts	794,022
609,145	Global unit trusts	702,398
237,815	Overseas private equity	247,242
74,895	Overseas infrastructure	101,361
49,057	Overseas timber	77,675
38,887	Overseas illiquid debt	51,411
3,068,419	Total overseas assets	3,217,953

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18.9 Currency risk sensitivity analysis

In consultation with the Fund's institutional consultant, Hymans Robertson the Fund considers the likely volatility associated with exchange rate movements to be in the region of **13%** (2014/15: 13%) (approximately one standard deviation) assuming other factors remain constant.

The table below shows the effect of a **13%** (2014/15: 13%) strengthening/weakening of the pound against the investments the Fund holds in various other currencies. The increase/ (decrease) on the net assets of the Fund are as follows:

Asset value as at 31 Mar 2015 £000	Change in year in the net assets to pay benefits		Asset type	Asset value as at 31 Mar 2016 £000	Change in year in the net assets to pay benefits	
	+13% £000	-13% £000			+13% £000	-13% £000
1,278,488	1,444,691	1,112,285	Overseas equities quoted	1,243,844	1,405,544	1,082,144
780,132	881,549	678,715	Overseas unit trusts	794,022	897,245	690,799
609,145	688,334	529,956	Global unit trusts	702,398	793,710	611,086
237,815	268,731	206,899	Overseas private equity	247,242	279,383	215,101
74,895	84,631	65,159	Overseas infrastructure	101,361	114,538	88,184
49,057	55,434	42,680	Overseas timber	77,675	87,773	67,577
38,887	43,942	33,832	Overseas illiquid debt	51,411	58,094	44,728
3,068,419	3,467,312	2,669,526	Total change in assets available	3,217,953	3,636,287	2,799,619

18.10 Credit Risk

Credit risk is the possibility that the counterparty to a transaction or a financial instrument might fail in its obligation to pay amounts due to the Pension Fund resulting in a financial loss. The market value of investments reflects an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

The Fund is exposed to credit risk in all its operational activities through forward currency contracts, derivative positions (futures) where applicable and treasury management activities. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

18.11 Commercial

Commercial credit risk also arises with those organisations that pay monies over to the Fund (debtors) as part of the administration function, principally contributions from employers and transfers in from other registered pension schemes.

Except in certain bulk transfer cases, the Fund does not apply service credits in respect of transfers in until cash settlement is made.

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Monthly receipt of contributions is closely monitored by the Employer team. In addition, member records are updated throughout the year with any new information provided to them. At the end of the financial year employers are required to provide an annual return which is used to reconcile both member information and the contributions paid over in the year by both the employee and the employer.

The Funding Strategy Statement requires safeguards to be in place on all new admission agreements to protect the Fund from an employer default, including through a guarantee from a tax backed scheme employer for any new body. An analysis of debtor balances at 31 March 2016 is provided in Note 13.

18.12 Forward currency contracts

Forward currency contracts are undertaken by Legal and General for the passive currency overlay programme and by the Fund's appointed fund managers. The largest single contracts are entered into for the overseas equity passive currency overlay; the counterparties on these contracts as at 31 March 2016 are shown in the table below. The counterparty on contracts entered into by other investment managers is at the discretion of those managers. All parties entering into forward contracts on behalf of the Fund are FSA regulated and meet the requirements of the LGPS (Management and Investment of Funds) Regulations 2009. Further details of forward foreign exchange contracts are provided in note 11.

Exposure at 31 March 2015		Counterparty	Exposure at 31 March 2016	
£000	%		£000	%
30,230	1.3%	Barclays Capital	-	-
-	-	BNP Paribas Capital Markets	40,156	1.8%
269,359	11.6%	Citigroup	123,342	5.4%
42,407	1.8%	Australian Commonwealth Bank	-	-
81,717	3.5%	Deutsche Bank AG	136,249	6.0%
273,907	11.8%	HSBC	301,887	13.2%
177,445	7.6%	J P Morgan Securities	137,876	6.1%
118,496	5.1%	Lloyds	406,036	17.8%
203,107	8.7%	Merrill Lynch	177,099	7.8%
258,906	11.2%	Morgan Stanley	128,820	5.6%
100,383	4.3%	RBC Europe	844	0.0%
203,380	8.8%	RBS	168,668	7.4%
26,538	1.1%	SEB	-	-
273,547	11.8%	SG Securities	-	-
12,769	0.6%	Standard Chartered	259,625	11.4%
120,580	5.2%	UBS	137,649	6.0%
129,012	5.6%	Westpac Bank Corp	261,879	11.5%
2,321,783	100.0%	Total	2,280,130	100.0%

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18.13 Futures

There were no open future contracts as at 31st March 2015 or 31st March 2016.

18.14 Bonds

Credit risk will also be considered by the Fund's bond managers in their portfolio construction. A bond is a saleable debt instrument issued by a corporation, government or other entity, the instrument may be purchased direct from the issuer or in the secondary market.

In addition to the passive manager, Legal and General, the Fund has two active bond managers MandG and GSAM. The former also manage a financing fund.

Both MandG and GSAM manage pooled assets against a LIBOR plus benchmark. At 31 March 2016, the average credit quality of the MandG bond mandate was **BBB+** rated (**A-** rated as at 31 March 2015). The portfolio had suffered five defaults since inception, one of which was experienced in the financial year ended 31 March 2015. The average credit rating of the financing fund was **BB+** rated as at 31 March 2016 (**BB+** rated as at 31 March 2015), and the portfolio has not suffered any defaults since inception. The portfolio managed by GSAM as at 31 March 2016 had an average credit quality of **AA+** (**A-** rated as at 31 March 2015) and has suffered five defaults since inception, three occurring in 2015/16 and two occurring 2011/12.

18.15 Cash held on deposit and current accounts

Cash managed internally – The Fund has operated a separate bank account since 1 April 2010 with Lloyds Bank plc, which is also banker to the Administering Authority. The Bank holds an **A** (**A** in 2014/15) long term credit rating with Standard and Poor. Cash is invested with Lloyds and is placed with institutions on the Administering Authority's approved counter-party list. The management of cash is carried out by the Treasury Management function of the Administering Authority in accordance with the treasury management policy and strategy approved by the Essex Pension Board. The Board have approved the management of cash in accordance with the policies and practices followed by the Administering Authority for its own investments as outlined in the CIPFA Code of Practice for Treasury Management in the Public Services. The Authority sets detailed credit criteria having taken independent advice and has maximum exposure limits to any single institution. Details of such are shown in the following tables. At 31 March 2016 **£26.311m** (31 March 2015: £13.967m) was under management by the Administering Authority's Treasury Management Team. Over the last five financial years the Pension Fund has no experience of default or uncollectible deposits.

Cash managed externally – The majority of the cash held by the Fund's custodian, the Northern Trust, is swept overnight to one of two AAA rated money market funds. As at 31 March 2016, the total balance held in the Sterling and US dollar AAA money market funds was **£88.424m** with a smaller balance of **£28.268m** held in the custodian current account (31 March 2015: £103.584m and £6.226m respectively). The use of a money market fund provides an underlying

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diversification of counter-party and avoids exposure to a single institutional balance sheet, in this case the custodian.

The table below provides a breakdown of where the Pension Fund cash is managed:

31 March 2015			31 March 2016		
Rating	£000		Rating	£000	
		Cash managed externally			
		Cash held on deposit (GLF)			
AAA	53,303	BNP Paribas	AAA	36,360	
AAA	50,281	Northern Trust	AAA	52,064	
		Cash held in Current Account			
AA-	6,226	Northern Trust	AA-	28,268	
	109,810	Total cash managed externally		116,692	
		Cash managed internally			
		Cash held on deposit			
AAA	-	Blackrock	AAA	3,002	
AA-	7,508	HSBC	AA-	7,508	
AAA	2	Standard Life (formerly IGNIS)	AAA	10,004	
AA-	4,000	Svenska Handelsbanken	AA-	5,009	
		Cash held in Current Account			
A	2,457	Lloyds Bank plc	A	788	
	13,967	Total cash managed internally		26,311	
	123,777	Total		143,003	

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The following table summarises the maximum exposure to credit risk of the cash held with Northern Trust and other financial institutions.

31 March 2015		31 March 2016	Maximum limit per Financial Institution	Historical risk of default	Estimated maximum exposure to default and uncollectability
£000		£000	£000	%	£000
Cash managed externally					
Deposit with bank and other financial institutions					
103,584	AAA Rated	88,424	80,000	0.0370%	33
6,226	AA Rated	28,268	N/A	0.0320%	9
<u>109,810</u>	Total cash managed externally	<u>116,692</u>			<u>42</u>
Cash managed internally					
Deposit with bank and other financial institutions					
2	AAA Rated	13,006	10,000	0.0370%	5
11,508	AA Rated	12,517	7,500	0.0320%	4
2,457	A Rated	788	5,000	0.0810%	1
<u>13,967</u>	Total cash managed internally	<u>26,311</u>			<u>10</u>
<u>123,777</u>	Total cash	<u>143,003</u>			<u>52</u>

18.16 Liquidity Risk

Liquidity risk is the possibility that the Fund might not have adequate cash resources available to meet its financial commitments as they fall due.

The ISC reviews its strategy on a yearly basis and where necessary takes steps to ensure that the Fund has adequate readily realisable resources to meet its financial commitments. The majority of the Fund's investments are quoted on major stock markets and are in readily realisable form. The Fund's strategic allocation to alternative investments, which are relatively illiquid, was as a result of a review of strategic asset allocation on **22 February 2016**, **27%** of the Fund's assets. The Fund is relatively immature with almost as many contributors as pensioners, dependants and deferred pensioners. In consequence the Fund has a positive cash flow and is able to pay benefits from contributions and investment income received. As the Fund is not in the position of a forced seller (i.e. it does not need to sell assets in order to pay benefits), it is considered appropriate to hold such illiquid investments to increase diversification, minimise risk and improve long-term investment performance.

The Fund as at 31 March 2016 had immediate access to its pension fund cash holdings held internally and externally of **£143.003m** (31 March 2015: £123.777m). These monies are primarily invested on an overnight basis on the money market.

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Officers of the Fund prepare periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The Statement of Investment Principles outlines the appropriate strategic level of cash balances that the Fund can hold. More detail can be found in the Pension Fund Annual Report and Accounts.

18.17 Refinancing Risk

Refinancing risk is the risk of the Fund replenishing a significant proportion of its financial assets at a time of unfavourable interest rates. The Fund is not subject to this particular risk as it does not hold any assets that would require refinancing in the future.

18.18 Custody

Northern Trust are the global custodian with responsibility for safeguarding the assets of the Fund. As at 31 March 2016 Northern Trust had **\$6.20 trillion** of assets under custody (31 March 2015: \$6.09 trillion) and had a credit rating of **AA-** (31 March 2015: AA-). Monthly reconciliations are performed between the underlying records of the custodian and all investment managers and partnerships of the Fund.

18.19 Investment Management

The Fund has appointed a number of segregated and pooled fund managers to manage portions of the Fund. An Investment Management Agreement is in place for each relationship. All appointments meet the requirements set out in the LGPS (Management and Investment of Funds) Regulations 2009. Reports on manager performance are monitored by the ISC on a quarterly basis. The Fund makes use of the custodian's performance measurement service to monitor performance. In addition to presenting to the ISC, managers also meet with Fund officers and advisers to review progress.

19. Further information

The Council publishes a separate Pension Fund Annual Report and Accounts. Copies may be obtained from the website www.essexpensionfund.co.uk or by contacting:

Director for Essex Pension Fund
County Hall
Chelmsford
CM1 1LX

Telephone 03330 138501

E-mail pensions.investments.web@essex.gov.uk

Statement of Accounts - Glossary

Term	Explanation
Accruals	Sums included in the accounts to cover income or expenditure attributable to an accounting period for goods received or work done, but for which payment has not been received / made, by the end of that accounting period.
Actuarial gains and losses	Changes in the net pensions' liability that arise because events have not coincided with assumptions made at the last actuarial valuation, or because the actuaries have updated their assumptions.
Actuarial valuation	A type of appraisal which requires making economic and demographic assumptions in order to estimate future liabilities.
Actuary	A suitably qualified independent consultant employed to advise the Council upon the financial position of either the Pension Fund or the Council's insurance arrangements.
Accumulating Absences	Accumulating absences are those that are carried forward and can be used in future periods if the current period entitlement is not used in full. In local authorities, annual leave, flexitime and time in lieu would usually be accumulating. Accumulating absences are typically earned by employees as they provide services.
Additional voluntary contributions	Additional voluntary contributions (AVC's) are an option available to individuals to secure additional pension benefits by making regular payments in addition to those payable on basic earnings.
Amortised cost	Amount at which a financial asset or financial liability is measured at initial recognition, less principal repayments and outstanding premium or discount.
Amortisation	Amortisation is the writing down of costs to the Income and Expenditure Account over a number of years.
Appropriations	Appropriations are the transfer of resources between, to and from the various reserves.
Available for sale financial assets	Financial assets that have a quoted market price and/or do not have fixed or determinable payments.
Billing authority	City, district and borough councils are responsible for the billing and collection of Council Tax and Non domestic rates (NDR).
Cabinet	The Cabinet comprises the Leader, and other Members appointed by the Leader. Each member of the Cabinet has a defined portfolio of responsibilities for the discharge of the Council's business; these portfolios are assigned by the Leader and are reported to the Council.
Capital Adjustment Account	<p>This account represents:</p> <ul style="list-style-type: none"> ▪ Amounts set aside from revenue resources to repay external loans; ▪ The financing of capital payments from capital receipts and revenue reserves; and ▪ The consolidation of gains arising from the revaluation of property, plant and equipment prior to 1 April 2007.
Capital expenditure	This is expenditure on the acquisition of property, plant and equipment (with certain minor exceptions) that will be of use or benefit to the Council in providing its services for more than one year.
Capital financing costs	Costs associated with the financing of property, plant and equipment, representing interest and principal repayments on loans and contributions from revenue reserves towards capital payments.
Capital financing requirement	This is a measure of the Council's underlying need to borrow for capital financing purposes.

Statement of Accounts - Glossary

Term	Explanation
Chartered Institute of Public Finance and Accountancy	The Chartered Institute of Public Finance and Accountancy (CIPFA) is the main professional body for accountants working in the public service.
Collection Fund	Account maintained by billing authorities for the collection and distribution of Council Tax and non domestic rates.
Community Assets	Assets that the Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and monuments.
Community Schools	Locally maintained schools that are owned and run by the Council. The Council employs the staff, owns the land and buildings and decides upon the schools' admission criteria.
Contingent liability	Contingent liabilities are possible or present obligations that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Council's control. Contingent liabilities are not recognised in the accounts as an item of expenditure but details are disclosed, where applicable, in the notes to the Accounts.
Council tax	A local tax set by local authorities in order to finance their revenue expenditure. The level set by a Council will be dependent on the level by which its budgeted expenditure exceeds income from other sources (for example, grants awarded by central government).
Creditors	Amounts due, but not yet paid, for work done, goods received or services received during the financial year.
Current service cost	The increase in pension liabilities as a result of service earned during the year.
Current value	A measurement reflecting the economic environment prevailing for the service or function the asset is supporting at the reporting date. Current value measurement bases include 'Existing Use Value', 'Depreciated Replacement Cost' and 'Fair Value'.
Debtors	Amounts due, but not yet received, for work done or services supplied, during the financial year.
Defined benefit pension scheme	A defined benefit pension scheme is any scheme other than a defined contribution scheme. Usually the scheme rules define the benefits independently of the contributions payable and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).
Defined contribution pension scheme	A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current or prior periods.
Depreciated Replacement Cost	A method of valuation which provides the current cost of replacing an asset with a modern equivalent asset, less deductions for all physical deterioration and all relevant forms of obsolescence and optimisation.
Depreciation	Depreciation is a measure of the wearing out, consumption or other reduction in the useful economic life of a fixed asset, whether arising from use, passing of time or obsolescence through technical or other changes.
Discount (PWLB)	In the event of the Council prematurely repaying a loan to the Public Works Loan Board (PWLB) it will be required to pay to the PWLB the present value of the remaining payments of principal and interest due on the loan. The present value is calculated with reference to the rates of interest in force when the repayment is confirmed. To the extent that the rate in force is above the rate of interest payable

Statement of Accounts - Glossary

Term	Explanation
	on the loan being repaid, the Council is compensated by the PWLB for the interest rate differential. This differential is referred to as a 'discount' arising from early settlement of the loan.
Discretionary benefits	Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the Council's discretionary powers.
Effective interest rate	The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, when appropriate, a shorter period, to the net carrying amount of the financial asset. It is used to calculate the amortised cost of an asset or liability.
Existing Use Value	A valuation method that estimates amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction and disregarding potential alternative uses for the asset.
Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Fees and charges	Charges made to the public for a variety of services such as the provision of school meals, meals-on-wheels, letting of school halls and the hire of sporting facilities.
Finance leases	Finance leases transfer all, or the majority of, the risks and rewards of ownership of a fixed asset to the lessee. Consequently, the fixed asset is included within the Balance Sheet of the lessee, even though the lessor retains legal title of the asset (also see 'Leasing' and 'Operating Leases').
Financial instruments	Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. Examples include the borrowing or lending of money and the making of investments.
Foundation Schools	Locally maintained schools that are state-funded by the Council. These schools are run by their governing body. The governing bodies employ the staff, determine the school admission policies and own the school land and buildings.
Heritage Assets	Tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.
IAS	International Accounting Standards.
IFRS	International Financial Reporting Standards. These are accounting standards by which the Council prepares its accounts.
Investment properties	Properties held solely to earn rentals and/or for capital appreciation purposes. This definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.
Investments	<p>A long term investment is intended to be held for use on a continuing basis in the activities of the Council. Investments are so classified only where an intention to hold the investment for the long term (greater than one year) can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.</p> <p>Investments, other than those related to the pensions fund that do not meet the above criteria, are classified as current assets.</p>
Joint operations	Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement.
Leasing	A method of acquiring the use of capital assets without legal title (ownership). There are two main types of leasing arrangements – namely finance leases and operating leases.

Statement of Accounts - Glossary

Term	Explanation
National Non Domestic Rates	These rates are the means by which local businesses contribute to the cost of providing local authority services. Business rates are collected by the billing authorities and are distributed in accordance government regulations.
Net interest on the net defined benefit liability	The change during the period in the net pension liability that arises from the passage of time. It includes interest income on plan assets and interest costs on the pension liability. It is calculated by applying the discount rate used to measure the net pension obligation at the beginning of the period to the net pension liability at the beginning of the period – taking into account any changes in the net pension liability during the period as a result of contribution and benefit payments.
Non-current assets held for sale	Property, Plant and Equipment assets that the Council is formally committed to sell and is actively marketing them in their current condition and where sale is expected within the next 12 months.
Operating lease	Operating leases are agreements for the rental of assets where the rewards and risks of ownership of the asset remain with the leasing company. The annual rentals are charged directly to the Income and Expenditure Account (also see Leasing and Finance Leases).
Past service cost	The increase in pension liabilities arising from a current year pension scheme amendment or a curtailment, whose effect relates to years of service earned in earlier years.
Pooled Budget	A type of partnership arrangement whereby NHS organisations and local authorities contribute an agreed level of resource into a single pot (the ‘pooled budget’) that is then used to commission or deliver health and social care services.
Precept	The amount the County Council requires the City, Borough and District Councils to pay from the Council Tax they have collected (on behalf of all authorities that set Council Tax) to meet the cost of County Council services.
Premium (PWLB)	In the event of the Council prematurely repaying a loan to the Public Works Loan Board (PWLB) it will be required to pay to the PWLB the present value of the remaining payments of principal and interest due on the loan. The present value is calculated with reference to the rates of interest in force when the repayment is confirmed. To the extent that the rate in force is below the rate of interest payable on the loan being repaid, the Council is required to recompense the PWLB for the interest rate differential. This differential is referred to as a ‘premium’ arising from early settlement of the loan.
Private Finance Initiative (PFI)	A long-term contractual public private partnership under which the private sector takes on the risks associated with the delivery of public services in exchange for payments tied to agreed standards of performance.
Provisions	An amount set aside to provide for a liability that is likely to be incurred as a result of a past event, prior to the balance sheet date, but where the exact amount and the date on which it will arise is uncertain.
Public Private Partnership (PPP)	An arrangement where the private sector partner agrees to provide a service to a public sector organisation.
Public Works Loan Board	The PWLB is a government agency that provides longer-term loans to local authorities, at interest rates marginally above the Government’s own borrowing rate.
Remuneration	Remuneration includes all amounts paid to or receivable by a person, including sums due by way of expense allowances (so far as these are chargeable to tax) and the estimated money value of any other benefits received by an employee otherwise than in cash.

Statement of Accounts - Glossary

Term	Explanation
Return on plan assets	Interest, dividends and other income derived from the Local Government Pension Scheme's assets (excluding amounts included in net interest on the net defined benefit liability), together with realised and unrealised gains or losses on those assets, less costs of managing the assets and any taxes payable.
Reserves	<p>The Council's accumulated surplus income in excess of expenditure, which can be used to finance future spending and is available to meet unforeseen financial events.</p> <p>Earmarked reserves are amounts set aside for a specific purpose in one financial year and can be carried forward to meet expenditure in future years.</p>
Revenue provision for repayment of debt	The minimum amount which must be charged, by Regulation, to the revenue account each year for repaying external loans.
Revenue Support Grant	This is the central government financial support towards the general expenditure of local authorities.
Retirement benefits	All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable. This is because these are not given in exchange for services rendered by employees.
Salary	Salary represents the amounts received under contract of employment for services rendered, other than bonuses, allowances, benefits in kind or compensation payments.
Scheme liabilities	The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities measured using the 'projected unit method' reflects the benefits that the employer is committed to provide for service up to the valuation date.
Settlement	An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement.
Specific government grant	These represent central government financial support towards particular local authority services, which the Government wishes to target.
Surplus properties	Properties not being used to deliver services but which do not meet the criteria to be classified as either investment properties or non-current assets held for sale.
Termination benefits	Termination benefits are payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits. They are often lump-sum payments, but also include enhancement of retirement benefits; and salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.
Voluntary aided schools	In these schools, all of the running costs and the majority of the building costs are funded by central government via the Council. The remaining building costs are met by the religious body that owns the school land and buildings. The governing body, comprising a majority of governors appointed by the religious body, employs the school staff and sets the school's admission arrangements in consultation with the Council.
Voluntary controlled schools	These schools are state funded via the Council. A religious body has some formal influence in running the school, including appointing a proportion of the school governors, and owns the school land and buildings. The Council employs the school staff though, and has primary responsibility for the school's admission arrangements.

Annual Governance Statement



Essex County Council

Annual Governance Statement

1. Our Annual Governance Statement

This statement summarises the outcome of our review of the Governance Framework that has been in place during 2015/16. The statement outlines why we are satisfied that we have effective arrangements in place for the governance of our organisation and that that we have a robust system of internal control.

2. Scope of our responsibility

We are responsible for ensuring that our business is conducted in accordance with the law and proper standards, and for ensuring that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. We also have a duty under the Local Government Act 1999 to continually review and improve the way we work, while at the same time offering value for money and an efficient and effective service.

To meet our responsibility, we have put in place proper arrangements for overseeing what we do (this is what we mean by 'governance'). These arrangements are intended to make sure that we do the right things, in the right way, for the right people, in good time, and in a fair, open, honest and accountable way.

3. The purpose of the Governance Framework

Our [Governance Framework](#) is a collection of systems, policies, procedures, rules, processes, behaviours and values by which Essex County Council (ECC) is controlled and governed, and also the activities through which it answers to, gets involved with and leads its communities. This framework allows us to monitor how we are achieving our strategic aims and to consider whether those aims have helped us deliver appropriate services that are good value for money.

Our [Governance Framework](#) includes a system of internal control designed to enable us to manage risk to a reasonable level. Whilst it cannot eliminate all risks arising out of a failure to achieve policies, aims and objectives it is designed to enable us to manage all risks to a reasonable level, thereby providing reasonable assurance of effectiveness. The system of internal control is based on an ongoing process designed to:

- identify and prioritise the risks that could prevent us from achieving our policies and aims;
- assess how likely it is that the identified risks will happen, and what will be the result if they did; and
- manage the risks efficiently, effectively and economically.

ECC has committed to a set of 6 core principles, developed by the Chartered Institute of Public Finance and Accountability (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) in their paper *Delivering Good Governance in Local Government*. The contents of our Local Code of Governance Framework meet the requirements of those 6 key principles and key documents from the Framework can be found on our [website](#).

Annual Governance Statement

As part of our ongoing arrangements the Local Code of Governance Framework has been in place throughout 1 April 2015 - 31 March 2016. The governance framework was refreshed and relaunched in April 2016 in line with new CIPFA guidance and our Code of Governance external webpages were also refreshed at this time. The framework remains in place at the time of the Audit Committee's approval of the accounts in September 2016.

4. Our Governance Framework

Our Governance Framework is made up of the many systems and processes we have in place, including those to do the following, under points (i) to (xxi):

- (i) **Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users**
- (ii) **Reviewing the authority's vision and its implications for the authority's governance arrangements**
- (iii) **Translating the vision into objectives for the authority and its partnerships**

Our [Vision for Essex 2013-17](#) is of a county where innovation brings prosperity. The Vision is underpinned by the following principles:

- We will spend taxpayers' money wisely
- Our focus will be on what works best, not on who does it
- We will put residents at the heart of the decisions we make
- We will empower communities to help themselves
- We will reduce dependency.
- We will work in partnership
- We will continue to be open and transparent

Our [Corporate Outcomes Framework 2014-18](#) translates this vision into a set of outcomes and supporting indicators that can guide the work of commissioners across ECC and details the specific 'outcomes' that ECC will work towards:

- Children in Essex get the best start in life
- People in Essex enjoy good health and wellbeing
- People have aspirations and achieve their ambitions through education, training and lifelong-learning
- People in Essex live in safe communities and are protected from harm
- Sustainable economic growth for Essex communities and businesses
- People in Essex experience a high quality and sustainable environment
- People in Essex can live independently and exercise control over their lives

Annual Governance Statement

A suite of [Commissioning Strategies](#) approved by Cabinet on 24 October 2014 articulate the strategic actions that ECC will undertake to deliver progress towards each outcome. The outcomes are measured against a series of indicators, which are listed in the individual Commissioning Strategies.

The above framework of policies provides a consistent set of aspirations that we will use to inform our future decisions, and a benchmark by which we can clearly see the difference that we are making in people's lives.

At the Full Council meeting on 9 February 2016 the [Revenue and Capital Budget 2016/17](#) and Financial Strategy was discussed and approved. Our [Economic Plan for Essex \(EPfE\)](#) sets out the Council's economic vision for the County and how it will be taken forward. The Equalities Strategy was approved at May 2015 Cabinet.

In March 2015 our Strategic Commissioning Board (SCB) approved a mandate to plan for a third phase of transformation. Our first two phases of transformation helped us save **£621 million** and transformed our organisational model. The **Essex 2021** [business case](#) was approved by SCB in February 2016 and proposes a new 'platform' business model.

The Corporate Governance Steering Board exists to ensure high level oversight of our corporate governance arrangements by the Leader of the Council and other senior members. Its remit includes all corporate governance matters, including decision making, information governance, counter-fraud and corruption, health and safety and equalities and diversity. The Board meets quarterly and receives the Corporate Governance Performance report which gives an overview of performance in all key corporate governance areas.

(iv) Measuring the quality of services for users, to ensure they are delivered in accordance with the authority's objectives and ensure that they represent the best use of resources and value for money;

Our performance management framework sets out the arrangements for ensuring we are delivering against the priorities and outcomes we have committed to and how we will measure our progress.

Progress is regularly reviewed at various levels including Cabinet, Scrutiny, Corporate Management Board, Operations Board, Outcomes Board and Functional Leadership Teams.

Scrutiny plays a key role in ensuring quality is delivered, providing an independent and robust challenge to delivery of ECC's objectives and holding Cabinet to account for delivery.

Annual Governance Statement

Our Annual Impact Report was produced to show our performance for 2015/16 against our overarching outcomes and seven commissioning strategies and presented to Corporate Scrutiny in September 2016.

Our commercial strategy and procurement policy and procedures provide a framework of best practice for all procurement activities which support ECC in achieving value for money and delivering on corporate objectives.

ECC's 2014/15 accounts were not qualified and there were few adjustments to the draft accounts, which were prepared to a good standard.

Our employees are supported by a comprehensive individual performance management process. In 2015/16 the 'Supporting Success' process defined the outcomes required from each employee. It is linked to the overarching principles and priorities of the Vision and Corporate Outcomes Framework, and is essential in enabling ECC to successfully deliver its objectives.

ECC Service Quality has been recognised nationally during 2015/16:

- The Essex Pension Fund was named as the "Defined Benefit Pension Scheme of the Year" at the 2015 Pension Age Awards in May 2015.
- The Information Commissioner's Office (ICO) Audit granted ECC a 'high assurance' rating in September 2015 following their June 2015 audit into how well we manage our data protection responsibilities. ECC is the only Local Authority to hold this level of compliance. The report contained 25 recommendations and ECC has an action plan in place to address these areas which is monitored by the Information Governance team.
- Information Service (IS) won two national awards at the [Real IT Awards](#) held on 21 May 2015. ECC's submission 'End User Computing incorporating Next Generation Networks' won the Award for Collaborative Enterprise and the Award for Enterprise Mobility.
- Cudmore Grove and Belhus Woods Country Parks were awarded a Green Flag in August 2015. The national award, given by environmental charity Keep Britain Tidy, recognises and rewards the best parks and green spaces across the country.
- The Highways Excellence Award was won by ECC and Ringway Jacobs for Highways Maintenance Efficiency in December 2015. The partnership between ECC and Ringway Jacobs won the Effective Partnerships category at the Chartered Institution of Highways and Transportation Awards.
- Essex Outdoors, ECC's Outdoor Education Service won the 2016 Primary Times Star Award for Best Children's Holiday Club / Camp in February 2016.
- The Special Guardianship Order Support team received the Children's Services 'Team of the Year' honour at the annual Social Worker of the Year Awards in November 2015.

Annual Governance Statement

- ECC maintained the Excellent level of the Equality Framework for Local Government (EFLG) at our reaccreditation in April 2016. In October 2015 the Law Society awarded: the Employee Network for Equality and Inclusion Award to the Inclusive Communication Essex Resource Service for their support for people across Essex with learning difficulties.
- Adult Social Care Local Government Association Peer Review; ECC undertook a self-assessment, then hosted a week-long visit by an external team of peers from local government and partners in order to validate our self-assessment and share their expertise and recommendations on shaping further change to deliver the best results for Essex residents. The review was very informative, the service has been on a significant change journey and the review identified a number of areas to further concentrate on embedding that change. The final report will be submitted to the Essex Safeguarding Adults board in July 2016. An action plan arising from the report will be developed and delivery will be monitored at internal officer boards.
- The Public Health Team won the Service Delivery Model award at the Local Government Chronicle Awards on 16 March 2016.

(v) Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication in respect of the authority and partnership arrangements

The law and [Constitution](#) clearly defines the roles and responsibilities of key member and officer roles.

Part 3 of the [Constitution](#) sets out how Councillors' authority is delegated to Cabinet Members and Officers. Chief Officers are in turn responsible for authorising delegations to their officers. All of these delegations are updated when roles or structures change. The protocol on Member/Officer relations contained within Part 5 of the [Constitution](#) further defines the day-to-day roles and responsibilities of Officers and Members.

ECC has [financial regulations](#) in place which provide a framework to identify our financial responsibilities and the financial limits assigned to Officers. These also set out the responsibilities in relation to partnerships and commissioning arrangements. The financial regulations were updated and approved at Full Council on 10 February 2015.

The [Scrutiny Annual report](#), presented at October Full Council, lays out the work that Scrutiny has done in year and explains its role and structure, linking to the Constitution where relevant.

(vi) Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff;

All our employees and Members must conduct themselves in accordance with the terms of the Officer Code of Conduct and Member Code of Conduct.

Annual Governance Statement

The ECC and Fire Authority Joint Standards Committee's main function in relation to ECC is to promote and maintain high standards of conduct by Councillors and to help them follow the Code of Conduct. The Joint Committee's terms of reference are set out in the [Constitution](#). Records of the Committee's meetings and decisions are available via our website. No complaints were referred to the Standards Committee during 2015/16, although there was one self-referral.

Our corporate governance e-learning training includes modules called 'How We Behave' and 'Good Decision Making' which cover the Code of Conduct and other expectations we have of Councillors and employees (see point (xviii)).

In December 2015 a decision was called in, partly based what was alleged to be a conflict of interest between a cabinet member and a tenderer. It was quickly identified that there that the Cabinet Member had made appropriate declarations of interest and had no involvement in any part of the procurement process. The decision was therefore implemented. It was however identified that there was a minor error in the Cabinet Member's entry on the register of interests. [The Member decided to resign from the Cabinet]. Since that time the Code of Conduct has been reviewed. Standards training has been refreshed and made available to all members. Corporate Scrutiny Committee requested a general report on procurement issues and this was considered in May 2016.

(vii) Reviewing the effectiveness of the authority's decision-making framework, including delegation arrangements, decision making in partnerships and robustness of data quality

Article 5 of the [Constitution](#) defines the responsibilities for decision making and the principles in accordance with which decisions must be made. They include the definition of key decisions and provide additional guidance to that definition in Part 4. See point (v) for delegation arrangements.

The Organisational Intelligence function was brought together with Commissioning Support staff in April 2015. The service provides ECC with the evidence it needs to be able to take decisions affecting commissioning and operational service delivery, such as population analysis, demand forecasting and needs assessments, as well as enabling the organisation to manage performance, engage with citizens and service users and maintain key business intelligence systems. It provides commissioners with the resources, evidence and information that they need at each step of the commissioning cycle in a way that allows them to make effective decisions.

All agendas, minutes and decisions taken by Cabinet members are available to the public through ECC's website. We have an online committee management system which ensures easily accessible and good quality information is always available about decisions and Member meetings, this also ensures that the committee process is efficiently managed.

Annual Governance Statement

The Overview and Scrutiny Committees play a key role to inform and challenge decisions carried out within each service. Each Overview and Scrutiny Committee has its own terms of reference and these are set out in the [Constitution](#).

Five decisions were called in to Scrutiny Committees in 2015/16, two were withdrawn at an informal stage, and the remaining three were referred to the Committee who voted to allow the decision to be implemented. All relevant papers can be found on ECC's Committee Management Information System.

Our intranet pages provide officers and councillors with access to information about how we deal with decision making, including easy access to guidance and policies.

ECC has a robust [Data Quality Strategy](#) in place which was approved in May 2015.

See section (xxi) regarding decision making in partnerships.

(viii) Reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability

ECC's [Risk Management Strategy 2014-2017](#) was reviewed by the Audit Committee in March 2016 and some minor updates were endorsed. It is communicated to staff with accompanying guidance and these are reviewed at least annually to ensure they remain fit for purpose and set out on our intranet site.

The Risk Assurance Statement for 2015/16 was included in the Head of Internal Audit Annual Report which was presented to the Audit Committee in June 2016.

(ix) Ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained

ECC has a dedicated Counter Fraud Team within our Internal Audit and Counter Fraud Service. The Counter Fraud Team delivers services to both ECC and to external clients. They are responsible for conducting investigations and supporting our services in providing evidence for any criminal investigations.

A total of 98 referrals have been received and investigated by the Counter Fraud Team during 2015/16. The Counter Fraud Team have undertaken proactive prevention and detection work, specifically the management of the National Fraud Initiative (NFI) and directed fraud awareness training.

Annual Governance Statement

The resulting matches from the NFI biennial data matching exercise, co-ordinated by the Cabinet Office, were reviewed and investigated by the Counter Fraud Team during 2015/16. The final results / outcomes have been returned:

- Personal Budget monies recovered in respect of deceased service users totalling **£11,559**.
- Pension overpayments due to deceased pensioners totalling **£30,071** identified, relating to **£105,739** annual pension value.

The Audit Committee received quarterly updates in respect of counter fraud activity and a summary is included in the Internal Audit Annual Report. The ECC Counter Fraud and Anti-Bribery Strategy and the Anti Money Laundering Strategy were approved by the Audit Committee on 7 December 2015.

The mandatory Corporate Governance e-learning pack includes an 'Anti-fraud and Corruption module (see section (xviii)).

(x) Ensuring effective management of change and transformation

The Transformation Support Unit (TSU) coordinates and supports the delivery of our Transformation programme. During 2015/16 there have been a number of projects to deliver efficiencies and meet new legislative requirements, such as the implementation of the Care Act and Increasing Independence Programme.

Progress is closely monitored by the Corporate Management Board and the Outcomes Board, which is a transformation-focused board, chaired by the Cabinet Member for Transformation and Corporate and Traded Services and since January 2016 the Leader of the Council. All business cases must undergo legal and financial scrutiny before they are received by the Outcomes Board, which challenges and filters business cases before they are taken to the relevant Cabinet Member in the usual decision-making process. The TSU Delivery Assurance team oversee the delivery projects and report progress to the Corporate Management Board.

Internal Audit are directly involved in supporting a number of critical corporate transformation projects, to help ensure that appropriate control systems are in place during design, transition and implementation and that these controls are proportionate to financial cost and risk.

There have been a number of significant service restructures in 2015/16, including Adult Community Learning phase, Adults Social Care and in person services (libraries and registration). These have been managed according to Council Policy.

In October 2015 Cabinet approved the creation of an alternative business structure for Essex Legal Services (ELS) - to set up a company regulated by the Solicitors' Regulatory Authority (SRA). ELS (via the company) will be enabled to trade more widely.

Annual Governance Statement

The Transforming Corporate Systems (TCS) project will bring all our core 'people' and 'financial' systems together into one integrated tool. Employees will no longer have to input the same data into several systems and tasks that were traditionally carried out centrally and often took several days to be processed will be quickly, easily and instantly done online.

The main TCS release is scheduled for 'Go Live' in late 2016 following some delays in the project implementation. Internal Audit undertook a schedule of work during 2015/16 to provide independent assurance over operational and application controls within the TCS project.

The 'Recruit' and 'Learn' modules of TCS went live on 2 November 2015. TCS Recruit gives managers have greater visibility of recruitment status and it is easier for employees to search and apply for internal roles. TCS Learn brings all learning activity into one training catalogue and booking system and enables greater visibility of all development activities.

- (xi) Ensuring the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) and, where they do not, explain why and how they deliver the same impact**
- (xii) Ensuring the authority's assurance arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010) and, where they do not, explain why and how they deliver the same impact**
- (xiii) Ensuring effective arrangements are in place for the discharge of the Monitoring Officer function**
- (xiv) Ensuring effective arrangements are in place for the discharge of the Head of Paid Service function**

Our financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). Our assurance arrangements for 2015/16 conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010) see reference (xvi) for more information).

Our Chief Financial Officer was the Executive Director for Corporate and Customer Services and our Monitoring Officer was the Director for Corporate Law and Assurance. Both of these roles have nominated deputies in place. After the end of the financial year and a change of personnel, a Corporate Lawyer (who had been Deputy Monitoring Officer) was appointed as the Monitoring Officer on an interim basis.

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In April 2015 our Head of Paid Service was the Chief Executive. However, from 7 May 2015 this post was vacant and interim arrangements and relevant constitutional changes, were agreed at Full Council in May 2015, pending the recruitment of a new Chief Executive.

From 7 May - 31 August 2015 Margaret Lee, Executive Director for Corporate and Customer Services was Acting Head of the Paid Service. Dave Hill, Executive Director for People Commissioning took over from 1 September 2015.

The Leader of the Council presented a report concerning the appointment of the Head of Paid Service at the October 2015 meeting of the Council and the recommended candidate, Gavin Jones, was appointed as the Council's new Chief Executive and Head of the Paid Service.

At Full Council in December 2015 it was agreed that Dave Hill, Executive Director for People Commissioning, would continue to act as Head of Paid Service until 19 January 2016.

Gavin Jones joined ECC as Chief Executive and Head of the Paid Service on 20 January 2016.

(xv) Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees: Practical Guidance for Local Authorities

The Audit Committee has undertaken the key functions required of it by Chartered Institute of Public Finance's (CIPFA) guidance on the role of audit committees. The Audit Committee role and purpose is set out in Articles of the [constitution](#).

The Committee continues to have a close working relationship with our internal and external auditors. The Audit Committee played an active role in relation to risk management and counter-fraud, as stated in points (viii) and (ix) above.

In September 2015, the Audit Committee approved ECC's 2014/15 [Statement of Accounts](#) and in March it approved the 2016/17 Audit Plan.

The Audit Committee have met four times during the 2015/16 financial year, in public. [Their work](#) has included receiving internal audit and counter fraud progress reports, including detail of all limited assurance reviews from the Head of Internal Audit and Counter Fraud and the extent to which remedial recommendations have been implemented.

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(xvi) Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful

The Monitoring Officer is responsible for ensuring lawfulness in decision making. The Section 151 Officer is responsible for financial administration and financial probity and prudence in decision making. Both roles are defined within Part 2 of the [Constitution](#).

The Head of Internal Audit and Counter Fraud is responsible for providing assurance on internal controls and ensuring that there are adequate mechanisms in place for the investigation and reporting of fraud.

Each Executive Director is required to complete an evidence-based Service Assurance Statement (SAS), accompanied by a plan setting out actions to be taken to strengthen any areas of weakness. These were completed in March/April 2016 and formally signed off by the Executive Director for each functional area. The organisations 2015/16 Service Assurance Statements returned an adequate overall assessment. Where necessary improvements were identified the relevant directors are responsible for securing remedial action in these areas.

All reports prepared for Cabinet require legal advice to be sought prior to their submission, and all reports to Cabinet or Cabinet Members must incorporate comments from both the Section 151 Officer and Monitoring Officer before they are submitted for consideration. In 2015/16 ECC decided that some decisions, which can be funded from existing budgets, are low risk and the reports don't need to be individually approved by the Monitoring Officer and/or the Section 151 Officer. However robust and proportionate arrangements are in place for reports with a higher risk profile.

The system of delegations outlined above (see section (v)) ensures compliance with the *ultra vires* doctrine whilst allowing ECC to fully utilise its powers.

We actively observe both the specific requirements of legislation and the general responsibilities placed on us by public law, bringing the key principles of good administrative law into our processes and decision making.

(xvii) Whistleblowing and for receiving and investigating complaints from the public

ECC has arrangements in place for employees, consultants or contractors to raise any concerns they have in the workplace. Our Whistle-Blowing Policy is available for employees through our intranet site, and provides advice and guidance about informal and formal ways to raise concerns relating to wrongdoing.

An external company called Expolink provides us with an independent and confidential route for any whistle-blowing allegations from staff and contractors. Any referrals through this route are rigorously investigated through a set process. These arrangements

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are also covered in our corporate governance e-learning training (How We Behave and Anti-Fraud and Corruption — see section (xviii)).

We have a strong counter-fraud team that supports investigations into allegations raised through any of the above routes and instigates appropriate recovery action where necessary.

We take complaints, comments and compliments seriously and have a comprehensive [policy](#) accessible to the public through our website. In addition, we have a corporate guide on complaint handling which sets out expectations and timescales to be applied in responding to our customers. Response performance is reported and monitored via the Corporate Governance Performance Report which is also used to monitor Local Government Ombudsman (LGO) issues.

(xviii) Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training

Council Members are offered development opportunities at the time of joining as part of the induction programme and at regular briefing and development sessions throughout their term of office. The Member Development Steering Group takes ownership for members' development and is responsible for shaping the Member Development Programme. ECC achieved the Member Development Charter Plus in November 2014, following achievement of Charter status in March 2013. We are developing a work plan for Charter Plus reaccreditation in November 2017.

For 2015/16 **96%** of Members had a Personal Development Plan in place and **53%** have taken part in the 360 degree feedback programme. Equality and Diversity learning for members has been a particular success this year with **88%** of members having refreshed training.

All employees are required to complete our comprehensive corporate governance e-learning programme. These e-learning courses are being refreshed for 2016/17 for completion by all ECC employees.

Our employees' annual training and development needs are identified through a performance management process, called 'Supporting Success'. From April 2016 the performance management process will be recorded online via our new system 'Perform'. This system allows each individual to align their goals to ECC's overarching priorities and their line managers' goals in a 'golden thread'. In addition to a comprehensive induction programme, there are a number of internal training courses available to employees, covering a wide range of topics and issues.

Our senior leaders participated in a leadership development programme throughout 2015/16 which focussed on building the right skills, values and behaviours required for

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the future. A full evaluation was undertaken of the programme to assess the impact of the learning and to help inform what continuous development is needed in the future.

In a new development for 2016/17 partners across Essex have started working together to design a Leadership Collaborative, a programme which will develop 'whole systems' thinking across the county, enabling leaders to influence their organisations to work better together for Essex citizens and communities.

(xix) Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation

ECC's [Communications and marketing Strategy](#) 2014-18 outlines how we communicate with partners and the all sections of the community. It establishes the principles that will guide how we communicate and engage, with openness and transparency, in language that people can understand, and through channels which are easy to access.

Our website is accessible to a wide audience, with relevant and regularly-updated news articles on our homepage. The website also houses our [Publication scheme](#) which details the different classes of information ECC routinely makes available and our '[Your right to know](#)' page which provides guidance for the public about what information is available to them and how they can access it.

We publish [all items of spend](#) and a [Pay Policy Statement](#) which is approved by Full Council every year at the Budget Setting Meeting.

All our communications are branded to ensure that they are easily recognised, and the information can be translated into different languages and alternative formats as required.

We continue to develop use of social media, including an active presence on Twitter, Facebook and LinkedIn. This shift of communications activities to digital channels enables citizens to self-serve, and engage in a style, time and place which suits them.

Our [constitution](#) allows public speaking at our Cabinet and Scrutiny Committees and for public questions to be heard at Full Council. Copies of the agendas, documents, minutes and decisions of all of our Committees, Cabinet and Council are available promptly through our website and we have an interactive online calendar of future meetings to enable public attendance where appropriate. Audio of our Council, Cabinet and most other committee meetings are broadcast live on our website and are available to listen to after the meeting.

Our internal communications team ensure that our employees are kept updated, using regular email newsletters, an intranet blog and Yammer. The Leader and Chief Executive hosted employee roadshows around the county from March to June 2016.

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ECC issued its annual 'Your Voice Employee Engagement Survey' in January 2016 to all employees. It is a confidential channel for upward communication which enables us to measure trends in employee engagement and evaluate the effect of changes and initiatives.

ECC proactively engages with the community in order to seek out their views, actively listen to them and support them to respond. We have a range of opportunities for involvement and engagement that are inclusive and meet individual need. This includes statutory consultations, surveys (with online or paper questionnaires plus telephone and accessible format options), focus groups, face to face interviews, ethnographic work, planning groups and consultation/discussion events.

The Council holds a consultation group, which enables officers seeking to undertake consultation to discuss the requirements with experts across the Council. This ensures that the Consultation that is presented to the public fully engages the communities, and seeks a full set of responses which can be used to inform the Councils decision making.

Our consultation portal [Essex Insight](#) is used by ECC, and by district and borough councils, to manage consultations. The purpose of each consultation is described and contact details are given so that it is possible to take part. For example 'Getting around in Essex' a consultation on our bus strategy closed in March 2015. The feedback received helped ECC and partners to review the bus service currently delivered across the county and shape it so it delivers greater benefits for the people who work and travel around Essex. 'Getting Around in Essex – a bus and passenger transport strategy' was subsequently agreed by Cabinet in June 2015.

Residents also had the chance to share their views on the Essex Rural Strategy through a wide-reaching public consultation, from September – December 15. The Essex Rural Strategy sets out a vision for our rural areas to thrive and will be refreshed for 2016.

The updated Statement of Community Involvement was agreed at Cabinet in September 2015. This document sets out ECC's commitments as to how it will consult when it is preparing Development Plan Documents and determining planning applications. The update was published for a six-week public consultation between 14 May and 25 June 2015

The annual residents' satisfaction survey was sent to a sample of randomly selected households across the county in August 2015. We received **4,865** responses and the report was published December 2015.

We also support a range of adult service user/carer led forums - including sensory / physical impairment / older people Planning Groups and Local Action Groups for adults with learning disabilities – while young people are supported to provide views through a range of groups including the Young Essex Assembly and the Children in Care Council.

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ECC adopted a new three-year framework for procuring research and insight in 2015/16. The framework will enable ECC to commission market research that can range from more traditional methods, such as surveys, through to more innovative engagement approaches such as ethnographic studies. The framework can be used to bring additional skill and capacity to ECC and for situations that require independent research.

(xx) Enhancing the accountability for service delivery and effectiveness of other public service providers (In England this includes powers granted to local authorities under the Health and Social Care Act 2012 and the Police Reform and Social Responsibility Act 2011)

The Council supports the work of the [Essex Health and Wellbeing Board](#), established in accordance with the Health and Social Care Act 2012, to advance the health and wellbeing of the people in Essex, and encourage health or social care providers to work in an integrated manner.

ECC acts as lead authority for the [Essex Police and Crime Panel](#) in accordance with the Police Reform and Social Responsibility Act 2011. Arrangements for handling complaints against the Police and Crime Commissioner and his Deputy have been implemented. Information about both, including a calendar of meetings and all past agendas and papers, is available on our website.

Information is also available on our website about the busy workload of the [Health Overview and Scrutiny Committee](#).

(xxi) Incorporating good governance arrangements in respect of partnerships and other joint working as identified by the Audit Commission's report on the governance of partnerships (Governing Partnerships: Bridging the Accountability Gap (Audit Commission, 2005)), and reflecting these in the authority's overall governance arrangements

Partnership Working In Essex

ECC is actively engaged with hundreds of partners and dozens of partnerships. Further strengthening the rigour of our approach to partnership working will enable us to put our limited resources to best use, facilitate whole-systems working with partners and ensure partners are systematic about sharing insight and intelligence. For example, we are developing a Leadership Collaborative to enable Leaders from partner organisations across Essex to develop together and embed whole systems thinking.

The [Essex Partnership](#) is a working relationship between representatives of organisations who deliver services to the public across Essex. It directs and oversees progress on partnership work through the Essex Partnership Board. The Board provides leadership to help shape the strategic direction of local public services based on whole-systems' approaches and support the delivery of public sector reforms.

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Essex Partnership Board and Essex Leaders and Chief Executives' Association are developing their thinking about strengthening partnership working to achieve better outcomes for 'Greater Essex' including through actively engaging with the Government on the devolution agenda and via the development of a Leadership collaborative which is being designed by leaders across Essex during 2016. The Strengthening Communities Partnership Board is co-ordinating programme of work to mobilise communities and the Essex Waste Partnership Board (EWPB) has agreed to jointly draft a 10 year strategic plan to aid delivery of the county's waste strategy.

In September 2015 all 15 district, borough, city, county and unitary authorities in Greater Essex wrote to the Government to express a [joint bid for devolution](#). Since then, respective partners have continued to explore the possibility of a devolution deal. However, partners are not willing, at this point, to pursue a combined authority with a directly elected Mayor, which appears to be the Government's strong preference. Therefore, formal work on a devolution deal is not progressing at this time, although discussions continue on possible devolution of some services between partners.

ECC works closely with NHS partners across Essex and is increasingly integrating the way we work and commission with NHS partners. This work is overseen by the Essex Health and Wellbeing Board.

In 2015, ECC, Southend and Thurrock, and seven clinical commissioning groups established a joint collaborative commissioning board with delegation to take decisions on behalf of all partners in relation to Child and Adolescent Mental Health Services (CAMHS). Previously each organisation commissioned CAMHS separately. An Accountable Care Partnership (ACP) in West Essex is in place with regular meetings to cover older people and frailty.

As part of the Better Care Fund (BCF), ECC has established pooled funds with the five clinical commissioning groups in Essex. The BCF is "owned" by the HWB on behalf of ECC and the five CCGs, NHS England require that it is approved by the HWB before submission. BCF is also approved by Cabinet and the individual CCG Boards. The minimum value of the Essex BCF in 2015/16 was **£94.956m** but the final plan was valued at **£102.734m** (final actual spend was £100.621m), after three CCGs put more than their minimum value into the fund. The fund was made up of Protection of Social Care, Reablement, Care Act and Disabled Facilities Grant which is given directly to the twelve Housing Authorities (district/borough/city councils) within Essex.

In June 2015 it was announced that Essex would be part of the NHS Success Regime, a new process of challenge and support for those health and care economies that face particularly deep challenges. The geographical footprint for the Success Regime is Mid and South Essex, covering the CCG areas of Basildon and Brentwood, Mid Essex, Castle Point and Rochford, Southend and Thurrock. A System Leadership Group has been established to oversee progress on the Success Regime and will report locally to the health and wellbeing boards of Essex, Southend and Thurrock, and will report nationally

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to NHS chief officers. The focus of the Success Regime is on securing a sustainable health and social care system.

The Care Act introduced a new approach to adult social care which places new responsibilities on local authorities. In July 2015, the Government announced it was postponing the introduction of a cap on social care funding, and the accompanying means-test until April 2020. This would have required re-design and development of our systems, practice and associated internal controls. The new Social Care Case Management System was successfully implemented in April 2015 which helps us fulfil the requirements of the Care Act.

The housing and public sector land project was initiated by the Essex Partnership Board as part of the public service reform agenda in Greater Essex. The objectives were to find an alternative way to use surplus public land and increasing overall value through developing housing that met local need with a particular focus on specialist accommodation where there is a need.

The project concluded in 2015/16 with the launch of Essex Housing which provides a range of services to all partners including identifying and assessing public land, developing business cases to secure investment, and procuring and managing design and construction professionals to construct and sale new housing. The benefits realised from the work of Essex Housing support the delivery of strategic outcomes as well as reducing costs, bringing forward capital receipts and generating new income. ECC will continue to strengthen our partnership working in respect of section 106 funds.

In February 2016 Cabinet agreed that ECC should participate in a new entity to deliver Garden Settlements in North Essex and to commence the strategic thinking around garden village settlements. Prior to the bid funding being received, an interim governance structure has been set up.

A multi-agency partnership led by ECC as the Lead Local Flood Authority, won the category for 'Resilience' under the 'Long Term Funding to Prevent, Prepare and Respond' at the Association of Directors of Environment, Economy, Planning and Transport (ADEPT) national awards ceremony on 28 January 2016. The award was for their approach to solving Canvey Island's surface flooding issues, ensuring that a plan of action was undertaken and working with local residents to engage and build community resilience. This win really highlights the success of the multi-agency partnership approach in delivering outcomes.

During 2015/16 the South East Local Enterprise Partnership (SELEP) has continued to ensure that there are robust governance arrangements in place. In November 2015 the Accountability Board was established as a joint committee with membership from all six upper tier authorities. This builds in accountability through the establishment of clear decision making channels, and brings with it transparency of decisions taken. The SELEP has an Assurance Framework, which is reviewed annually and sets out how local growth

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schemes will be selected and delivered, ensuring maximum impact and best value for money, and the structure and decision making within the SELEP. This is also submitted to central government, and against which the SELEP is audited by the National Audit Office before annual funding is released to the SELEP.

Companies

Section 95 of the Local Government Act 2003 provides powers to Local Authorities in England to trade in function-related activities through a company. ECC has set up Local Trading Authority Companies for this purpose. ECC also has interests in other companies or limited liability partnerships that have been established by other bodies. Guidance on how to create a company provides direction in the areas of good governance, legal and financial compliance arrangements was revised in 2015/16. A register of Local Authority Trading Companies is maintained by Corporate Law and nominated officers are appointed who report updates of company activities.

Essex Cares Ltd continues to deliver its business plan, providing services in [Essex](#) and [West Sussex](#), to support people to live safely and independently within their homes and local communities. As sole shareholder the Council continues to ensure that it exercises its shareholder responsibilities appropriately, and that there are adequate governance arrangements in place. Keir Lynch, Executive Director, left ECC in January 2016 to become Chief Executive of Essex Cares Ltd.

5. Review of effectiveness

We have a responsibility to conduct, at least annually, a review of the effectiveness of our governance framework including the system of internal control. The review of effectiveness is informed by the work of senior officers who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit and Counter Fraud's annual report, our own Service Assurance Statements (completed by all Executive Directors) and from comments received from external auditors and other review agencies and inspectorates.

Service Assurance Statements

Each Executive Director completed an evidence-based Service Assurance Statement (SAS) in March 2016, accompanied by a plan setting out actions to be taken to strengthen any areas of weakness. The organisations 2015/16 Service Assurance Statements returned an adequate overall assessment (there were no significant areas of non-compliance). Where necessary improvements were identified the relevant directors are responsible for securing remedial action in these areas.

External Audit and Inspectorates

The External Auditors (Ernst and Young) provided an unqualified opinion on the Council's financial statements and use of resources (Value for Money).

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The Information Commissioner's Office (ICO) Audit assessed ECC with a 'high assurance' rating in September 2015 - this assessed how well we manage our data protection responsibilities. ECC is the only Local Authority to hold this level of compliance.

Internal Audit and Counter Fraud

In the Annual Audit Report the Head of Internal Audit and Counter Fraud provides opinion of the adequacy of our system of internal control, his overall opinion for 2015/16 is 'Good assurance'. This means that there is a sound system of internal control, adequately designed to meet our objectives, and controls are generally being applied consistently.

In 2015/16 we carried out **84** audits (including schools) across our full range of functions, services and directorates. **88%** of our reviews received 'Good' or 'Adequate' assurance.

Of the audits completed in 2015/16, **8** reviews received 'Limited Assurance' and none received a 'No Assurance' opinion. Remedial recommendations have been agreed with the relevant service areas to effect the necessary control improvements for all of these reviews, these are robustly tracked to ensure implementation within agreed timelines.

Internal Audit visits to schools are prioritised based on a risk assessment of all schools, and 25 reports on schools were issued in 2015/16. The assurance outcomes were proportionately consistent with the previous year with **96%** receiving 'Good' or 'Adequate' assurance and **4%** 'Limited Assurance' opinion. We also undertake an annual analytical review of School Year-End Balances which is an important assurance tool encompassing the whole school population. The School Year-End Balances review received an opinion of 'Good Assurance' in 2015/16.

Internal Audit have been directly involved in supporting a number of corporate projects during the year enabling organisational change (e.g. TCS), to help ensure that appropriate control systems are in place during design, transition and implementation and that these controls are proportionate to financial cost and risk. Internal Audit's early involvement in these projects has resulted in close collaboration with the relevant teams with issues being addressed promptly as they have arisen. These activities have been reported to the Audit Committee throughout 2015/16.

Counter Fraud activity is reported regularly to the Audit Committee. Referrals received in 2015/16 (see section (ix)) have remained consistent in volume with the previous year. The Counter Fraud Team has undertaken proactive prevention and detection work.

All recommendations arising from Internal Audit and Counter Fraud activity are tracked with monthly automated emails sent to owners of recommendations to request status updates via a web-based system. Summary reports on outstanding recommendations are presented to Functional Leadership Team meetings quarterly, with progress reports on implementation of recommendations provided to Audit Committee. The Corporate Governance Steering Board also monitors implementation of recommendations as one of their indicators of effective organisational governance. This provides good accountability and visibility of Internal Audit

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recommendations. All reviews with a 'No' or 'limited assurance' opinion are also subject to a follow-up audit review.

6. Governance issues

We have been advised on the implications of the result of the review of the effectiveness of the governance framework and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

- **Tribunal** – in 2014/15 a judgement was made against ECC by an Employment Tribunal in respect of race discrimination, victimisation, harassment, unfair dismissal and breach of contract in relation to a former employee. ECC subsequently appealed this outcome. The Tribunal's decision was quashed and was remitted to a new hearing.
- **Health and Safety** - in June 2015 ECC was fined **£10,000** plus costs of approximately **£3,000** to charges under the Health and Safety at Work Act 1974 over a fall of a 15 year old child from a Climbing Wall at one of our Outdoor Centres. ECC pleaded guilty at an early stage and the Court accepted the mitigation arguments. The HSE agreed it was an isolated and regrettable lapse and has confirmed that Essex Outdoors now has a sufficient and suitable safety management policy in place and all actions listed in the response plan have been completed.
- **Grant Payments** – in December 2015 Pierre Oxley (Trustee for Clacton Cricket Club and ECC Councillor) pleaded guilty to **8** counts of fraud by false representation relating to fraudulent claims for grants awarded by several bodies, including grants of **£7,500** from ECC. He received no personal gain from the grants but was disqualified from holding office by virtue of his conviction.
- **Local Government Ombudsmen (LGO)** - ECC received **285** LGO investigations in 2015/16, 284 were responded to in the required timescales and all were responded to in full.

A high volume of complainants referred their case to the Ombudsman following ECC's change to the Home to School Transport Policy which took effect in September 2015. The Ombudsman found no fault with the consultation or decision making process by which the policy was brought into effect. The Ombudsman's report did find ECC at fault for providing incorrect information about the way it measured the home to school distance in assessing which was the nearest school and in not explaining that parents could contact the Council to find out which school was considered to be closest to their home. The Ombudsman found that these faults caused an injustice in the cases of two of the complainants and ECC also failed to deal with one of the complainant's appeal properly. ECC had already implemented some of the Ombudsman's recommendations prior to receipt of the report and has now agreed all other recommendations.

There have also been **6** LGO investigations in 2015/16 as a result of some inconsistent practice in approvals of requests to lower kerbs to allow vehicles to cross the footway. ECC has received two Final Decisions to date where the Ombudsman found no fault and we are

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awaiting further Final Decisions. However to support more consistent practice remedial actions have been put in place, including additional mandatory training.

- **ICO** - There has been one ICO referral in 2015/16, the ICO have closed the case and not investigated it. There have been **22** complaints received by the ICO about ECC. **8** are still pending and **4** were upheld. However, the ICO did not exercise their powers to raise a monetary penalty (fine) for any of these incidents.

As we face the significant financial challenges presented by the local government financial settlement, combined with increasing demand for services, it is essential that we continue to ensure good governance is embedded and sustained in the innovative solutions delivered by ECC and its partnerships.



Cllr David Finch
Leader of the Council



Gavin Jones
Chief Executive

Independent Auditor's Report

Independent Auditor's Report

Independent Auditor's Report to Members of Essex County Council

Opinion on the Authority's financial statements

1. Opinion on the Authority's financial statements

We have audited the financial statements of Essex County Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement,
- Related notes 1 to 37 for the core statements, and Group Accounts notes 1 to 6.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of Essex County Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

2. Respective responsibilities of the Executive Director for Corporate and Customer Services and auditor

As explained more fully in the Statement of the Executive Director for Corporate and Customer Services' Responsibilities set out on page 26, the Executive Director for Corporate and Customer Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

3. Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

Independent Auditor's Report

whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director for Corporate and Customer Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts for the year ended 31 March 2016 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

4. Opinion on financial statements

In our opinion the financial statements:

- Give a true and fair view of the financial position of Essex County Council and Group as at 31 March 2016 and of its expenditure and income for the year then ended; and
- Have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

5. Opinion on other matters

In our opinion, the information given in the Statement of Accounts for the year ended 31 March 2016 for the financial year for which the financial statements are prepared is consistent with the financial statements.

6. Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Independent Auditor's Report

7. Conclusion on Essex County Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

7.1 Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

7.2 Auditor's responsibilities

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

7.3 Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2015, as to whether Essex County Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Essex County Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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7.4 Basis for except for conclusion

In considering the Authority's arrangements for securing financial resilience, and for challenging how it secures economy, efficiency and effectiveness we identified the following:

- The Authority have disclosed in the 'Revenue Spending plan for 2016/17' section of the Narrative Report that whilst a balanced budget was set for 2016/17, the Authority forecasts a budget gap of approximately **£273m** over the period to 2018/19 (**£101m** in 2017/18, increasing to **£172m** by 2018/19).
- The Authority, in line with previous years, is undertaking a review of budget proposals (savings and income generating opportunities) to bridge the gap. At this stage, the 2017/18 year savings are substantially identified, although not exacted, but the following years remain challenging.
- Unless the budget gap forecast in the Medium Term Financial Strategy is closed the Authority would have almost completely exhausted its usable revenue reserves by the end of 2018/19.

In our view, despite the commencement of a significant reorganisation project to identify the required savings, the Authority has not yet been able to make sufficient progress in identifying the savings required to demonstrate its ability to secure a stable financial position over the medium term.

7.5 Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, Essex County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

7.6 Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

In addition we are required to give an opinion on the consistency of the financial statements of the pension fund included in the Pension Fund Annual Report of Essex Pension Fund. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2016. As the Authority has not yet prepared the Annual Report we have not yet been able to conclude on the consistency with these financial statements and we have not issued our report on those financial statements.

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Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

A handwritten signature in dark ink, consisting of a series of loops and a long horizontal stroke extending to the right.

Andrew Clewer (senior statutory auditor)

for and on behalf of Ernst & Young LLP, Appointed Auditor

Luton

21 September 2016

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Opinion on the Pension Fund financial statements

1. Opinion on the Pension Fund financial statements

We have audited the pension fund financial statements for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of Essex County Council in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

2. Respective responsibilities of the Executive Director for Corporate and Customer Services and auditor

As explained more fully in the Statement of the Executive Director for Corporate and Customer Services' Responsibilities set out on page 26, the Executive Director for Corporate and Customer Services is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

3. Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director for Corporate and Customer Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts for the year ended 31 March 2016 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge

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acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

4. Opinion on the financial statements

In our opinion the Pension Fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and the amount and disposition of the fund's assets and liabilities as at 31 March 2016; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

5. Opinion on other matters

In our opinion, the information given in the 2015/16 Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.



Melissa Hargreaves

for and on behalf of Ernst & Young LLP, Appointed Auditor

Manchester

21 September 2016